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Supreme Court of the United States

OCTOBER TERM, 1997

THEIS RESEARCH, INC.
Petitioner

v.

OCTEL COMMUNICATIONS CORPORATION AND
NORTHERN TELECOM INC.
Respondents

**On Petition for Writ of Certiorari
to the United States Court of Appeals
for the Federal Circuit**

PETITION FOR A WRIT OF CERTIORARI

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90 pp

QUESTIONS PRESENTED

In *American Airlines, Inc. v. Lockwood*, the Court granted certiorari to resolve the question of whether juries should decide the validity of patents. 515 U.S. 112 (June 5, 1995). Before any hearing on the merits, however, the case was rendered moot, vacated, and remanded. 515 U.S. 1182. Three years later, this case presents another opportunity to resolve that recurring and important question.

The patent validity issues in this case concern "obviousness" and "anticipation." Under 35 U.S.C. § 103(a), the Patent and Trademark Office does not issue a patent for any invention it determines to have been "obvious." The "obviousness" test compares the claimed invention with the "prior art" (generally, the public or unprotected information available at the time of the invention) and asks whether the invention as a whole would have been obvious to a person having ordinary skill in the subject matter. Under 35 U.S.C. § 102(a), the Patent and Trademark Office does not issue a patent for any invention it determines to be "anticipated." A claimed invention is anticipated if it already appears in the prior art.

After diligently applying these tests, the Patent and Trademark Office issued patents to Peter Theis (pronounced "Tice") for his invention of interactive automated voice processing technologies (including telephone answering uses). Respondent manufacturers sued Theis Research, Inc. (holder of the patent rights) for declaratory relief. They denied infringement and alleged that the patents were invalid as obvious and anticipated in light of the same prior art that had been before the Office when it issued the patents.

In the shadow of comments disparaging the process by which the Patent and Trademark Office examines patent applications, a jury heard "expert" opinions and then decided the patented inventions were "obvious"—and one of them "anticipated"—in light of the same prior art that had already been before the Office. Except for an anticipation finding as to one prior patent, the trial court upheld the jury's verdict, denying judgment as a matter of law to Theis Research, and entered a declaratory judgment in favor of respondents on these issues. The Federal Circuit affirmed under a "substantial evidence" test.

Even where (as here) all of the prior art was before the Patent and Trademark Office when it made its determination of non-obviousness, the Federal Circuit's approach to these cases still directs a jury to start over and make a de novo determination as to patent validity (though ostensibly under a "clear and convincing evidence" standard). If a jury verdict sets aside the Patent and Trademark Office's determination of non-obviousness, the Federal Circuit affirms if it finds any "substantial evidence" to support the verdict. This process affords the Patent and Trademark Office's determination little deference, and it substitutes a jury's judgment for the Office's, even where the Office has not made a clear error or abused its discretion. The Federal Circuit does not review the Office's determination for clear error or an abuse of discretion.

In light of the foregoing, these questions are presented:

1. Where all of the prior art was before the Patent and Trademark Office, should a jury be invited and empowered to disregard the Office's determinations, substituting its own opinions of obviousness and anticipation (and those of an infringing party's "expert") for the Office's determinations? Or should the trial court have sustained the Office's determinations absent clear error or an abuse of discretion?

2. As patent validity is ultimately a question of law, where all of the prior art was before the Patent and Trademark Office, and the Office determined that the invention was neither obvious nor anticipated, should the Federal Circuit review de novo (a) a jury's verdict overturning the determination of the Office and (b) the trial court's denial of judgment as a matter of law?

Under the Court's decision in *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), a judge is to construe the claims of a patent in light of the specification and claims to preserve the patent's internal coherence.

3. Should the Federal Circuit review the construction of patent claims de novo in light of the specification and claims?

(Petitioner alternatively requests that the Court grant, vacate, and remand for reconsideration in light of the subsequently issued en banc decision of the Federal Circuit in *Cybor Corp. v. FAS Technologies, Inc.* (Fed. Cir. Nos. 96-1286, -1287, Mar. 25, 1998).)

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4. Should a patent be held invalid under the "on sale" bar of 35 U.S.C. § 102(b) where the invention as a whole was not "fully completed" one year before filing of the patent application? For the purpose of obviousness and anticipation determinations, should an inventor's own work be classified as "prior art" by virtue of the "on sale" bar of 35 U.S.C. § 102(b) where the work as a whole was not "fully completed" with respect to the patented invention?

(Petitioner alternatively requests grant and consolidation with *Pfaff v. Wells Electronics, Inc.*, No. 97-1130, or hold pending the Court's decision in *Pfaff*.)

PARTIES TO THE PROCEEDING

Rule 14.1(b) Statement: In addition to petitioner Theis Research, Inc. (Theis Research), Peter F. Theis was an appellant and cross-appellee in the proceeding before the Court of Appeals whose judgment is sought to be reviewed. Respondents Octel Communications Corporation and Northern Telecom Inc. were appellees and cross-appellants in the proceeding before the Court of Appeals.

The following are also parties to the consolidated actions in the United States District Court (N.D. Cal. Nos. C-92 20217, C-93 20287, C-93 20288) from which the subject appeal was taken: Pacific Telesis Group, Pacific Bell, Pacific Bell Information Services, Airtouch Cellular (formerly PacTel Cellular), PacTel Meridian Systems, Digital Sound Corporation, and Tigon Corporation. Boston Technology, Inc., was previously a party in the trial court.

In addition, by virtue of a stipulation and order entered in *Theis Research, Inc. v. Bell Atlantic Corporation, et al.* (E.D. Va. Civil Action No. 93-296A), the following parties will be directly affected and bound by certain results in this case: Bell Atlantic Corporation, Bell Atlantic Network Services, Inc., The Bell Telephone Company of Pennsylvania, The Chesapeake and Potomac Telephone Company, The Chesapeake and Potomac Company of Maryland, The Chesapeake and Potomac Company of Virginia, The Chesapeake and Potomac Company of West Virginia, Diamond State Telephone Company, New Jersey Bell Telephone Company, Bell Atlantic Mobile Systems, Inc., and Bell Atlantic Meridian Systems. AT&T and Lucent Technologies are bound to the same stipulation by agreement.

Rule 29.6 Statement: There are no parent companies or nonwholly-owned subsidiaries of Theis Research.

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PETITION FOR WRIT OF CERTIORARI

Petitioner Theis Research, Inc. (Theis Research) respectfully prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Federal Circuit entered November 6, 1997. Alternatively, petitioner respectfully requests grant and consolidation with *Pfaff v. Wells Electronics, Inc.* (No. 97-1130), hold pending the Court's decision in *Pfaff*, or grant, vacate, and remand for reconsideration in light of the subsequently issued en banc decision of the Federal Circuit in *Cybor Corp. v. FAS Technologies, Inc.* (Fed. Cir. Nos. 96-1286, -1287, Mar. 25, 1998).

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Federal Circuit appears at Appendix A to the petition and is unpublished. The decision is listed at 132 F.3d 51 (table). The full opinion appears at 1997 WL 697288 (Fed. Cir.). The Final Judgment of the United States District Court for the Northern District of California, entered January 2, 1996, appears at Appendix B to the petition and is unpublished. The District Court's Order on Defendants' Motion for Judgment as a Matter of Law that Claims 1 and 10 of the '436 Patent Are Valid (entered November 14, 1996) (Appendix C), Order on Defendants' Motion for Judgment as a Matter of Law on Validity of Claim 1 of the '817 Patent (entered November 14, 1996) (Appendix D), and Order on Defendants' Motion for Judgment as a Matter of Law on Octel's Infringement of Claims 1 and 10 of the '436 Patent (entered November 14, 1996) (Appendix E) are unpublished.

JURISDICTION

The judgment of the United States Court of Appeals was entered on November 6, 1997. A petition for rehearing was timely filed, refiled with leave of court in a preferred format, and denied by the United States Court of Appeals on December 29, 1997. A copy of the order denying rehearing appears at Appendix F to the petition. An extension of time to file the petition for writ of certiorari was granted to and including April 29, 1998, on March 6, 1998, in Application No. A-662.

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTES INVOLVED

35 U.S.C. § 102. *Conditions for patentability; novelty and loss of right to patent*

A person shall be entitled to a patent unless—

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, . . .

* * *

35 U.S.C. § 103. *Conditions for patentability; non-obvious subject matter*

(a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

* * *

35 U.S.C. § 282. *Presumption of validity; defenses*

A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim. . . . The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.

The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:

* * *

(2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,

* * *

STATEMENT OF THE CASE

The Inventions

Peter Theis began working on innovations in telecommunications after the Federal Communications Commission ruled that American Telephone & Telegraph Co. (AT&T) could not prevent customers from connecting privately owned devices to the customer end of a telephone line. *In re Use of the Carterfone Device in Message Toll Telegraph Service*, 13 F.C.C. 2d 420 (1968). Perhaps it was inevitable that Theis Research would end up having to fight the progeny of

AT&T and their major manufacturers/suppliers to vindicate the rights that it holds under Theis' patents.

Equipped with a bachelor's degree in electrical engineering from Yale, an MBA from the University of Chicago, and a decade of experience with computers and computer-controlled equipment, Theis joined a small start-up company and began designing equipment to meet the needs of the commercial market opened up by the *Carterfone* decision. Theis is the inventor or co-inventor with respect to a number of U.S. patents, predominantly in telecommunications.[1]

The patents in question here are United States Patent Nos. 4,539,436 and 4,692,817 (the '436 and '817 patents). These issued for the technology of an interactive automated voice processing system that Theis invented in the early 1970s. The technology has non-telephone uses, but claims 1 and 10 of the '436 patent are limited to telephone applications. More advanced and sophisticated "voice mail" applications developed by others years later built upon the underlying technology that Theis invented.

When Theis made his invention, only simple telephone answering machines were available: the most advanced made an announcement followed by a beep, recorded the caller's message, and hung up. In contrast, Theis invented and brought to market an interactive device, called the Con Mode, that plays a pre-recorded message (a "prompt"), detects when a caller starts and stops speaking or if the caller does not speak, and in response to a pause, provides one or more additional prompts to get additional information from the caller or to advise that the call is concluded.

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[1] *See* U.S. Patent Nos. 3,668,325; 4,150,255; 4,152,547; 4,270,024; 4,328,396; 4,539,436; 4,559,416; 4,692,817; 4,719,647; 4,747,125; 4,800,583; 4,856,050; 4,982,420; 5,201,028; 5,315,688; 5,577,163; 5,642,411. *See also* U.S. Patent Nos. 5,301,996; 5,518,363; 5,639,208.

While the Con Mode had non-telephone applications, its principal intended use was for automated communication with high volumes of telephone calls.[2] Starting in January 1973, Theis' company delivered the original version of the Con Mode (referred to in this litigation as "Con Mode I") to Montgomery Ward, J.C. Penney, Household Finance Company, and Market Facts for high-volume calling. None of these machines was placed in use before February 4, 1973 (one year before the initial patent application). Theis also dealt with AT&T in this time frame.

While the Con Mode I had worked well in the lab, it was an absolute disaster when placed in the field and used by large numbers of different callers.[3] For several months in the first half of 1973, Theis worked furiously to figure out the problem with the machine.[4]

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[2] The simple answering machines that had been available up to that point had proved counter-productive for uses such as catalog ordering. For example, customers typically forgot to answer all of the extensive requests for information that had been played on the single pre-recorded announcement or hung up in frustration.

[3] By way of example, Theis explained what happened at Ward's in Pasadena, Texas: "The call would come in and the person would start to give their name. In the middle of the name the next prompt would come on. Sometimes a prompt would come on without even waiting for a response. Other times the person would give their name and it would not come out. Next question they'd say 'Hello, Hello, Hello out there,' and then finally hang up. I remember the Sunday morning telephone call, 'Why don't you come down here to pick up your machine.' And what had happened was the—I mentioned these three-hour recording decks. A person had called, hung up, and that machine never hung up. And it was not just the machine never hung

Finally, Theis considered that with numerous calls, a combination of spurious noise on a telephone line might be triggering the machine just the same as when a person is talking. To solve that problem, Theis employed a "speech detector" to differentiate background noise from when a caller is talking.[5] Similarly, Theis also employed a line interface to detect when a caller had hung up. Further testing confirmed these solutions. The device as ultimately modified (known in the litigation as "Con Mode II") worked and was then marketed with success.

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up but also busied out their line for the whole night. And when they came in the next morning, they had to transcribe the whole tape to see if there might be another order on the tape. And it was a very unhappy situation those months." (Transcript punctuation altered.)

[4] He made a number of adjustments and ran various tests with the help of his engineering assistant, but none of them disclosed the problem that caused the Con Mode I to perform so erratically when it was placed in the field.

[5] A "speech detector" functions by "hearing" all sounds and then discriminating against those sounds that the device is "told" would not be speech. In other words, the device works by a process of elimination. The speech detector that Theis employed to solve the problem with the Con Mode I could "recognize" and, therefore, discriminate against noises such as dial tones, howling signals, and general background line noise. It did not "recognize" and, therefore, would have been "fooled" by noises such as the barking of a dog and, if played for a sufficiently short duration, a touch tone.

History of the '436 and '817 Patents

The next major problem Theis encountered was with the law firm he retained to pursue a patent of the Con Mode technology. The firm ignored his matter and did not file an application until February 4, 1974. This was the first of a series of five continuation-in-part applications that resulted in the '436 patent[6]

The second application ('930) was the subject of *In re Theis*, 610 F.2d 786 (C.C.P.A. 1979). While the Con Mode did not work as a telephone device until several months after the critical date of February 4, 1973, the claims had been drafted broadly to include non-telephone uses. For that reason, the Court of Customs and Patent Appeals held those claims subject to the "on sale" bar of 35 U.S.C. § 102(b) for a claimed invention on the market more than one year before the date of the original application. *In re Theis*, 610 F.2d at 794.

The fifth application ('243) resulted in issuance of the '436 patent on September 3, 1985. Theis brought to the attention of the examiner, among other things, the *In re Theis* proceedings and decision and the extensive history of the innovation of the Con Mode II set forth in the '930 application. The record of the '243 application (known as the file wrapper) confirms that the examiner studied the prior applications, which would have included review of the "Shepard" patent (No. 3,300,586).[7]

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[6] Application serial Nos. 439,445 (filed Feb. 4, 1974); 604,930 (filed Aug. 15, 1975); 605,240 (filed Aug. 18, 1975); 856,105 (filed Nov. 30, 1977); 334,243 (filed Dec. 24, 1981). *See* U.S. Patent No. 4,539,436, "Related U.S. Application Data."

[7] A prior examiner had determined that it was not an obstacle to patentability and, indeed, had concluded that it was only "of interest."

As a continuation of the application for the '436 patent, Theis filed a further application for two claims that had been canceled without prejudice during the '436 prosecution. The claims were amended and resulted in issuance of the '817 patent on September 8, 1987.[8]

Proceedings and Jurisdiction in the District Court

Respondent Octel Communications Corporation (Octel) initiated the underlying litigation by suing Theis Research (of Gurnee, Illinois) in Octel's home territory in the Silicon Valley (N.D. Cal. [San Jose Division], No. C-92 20217). In separate actions, Octel and Northern Telecom Inc. (Northern Telecom) sued Theis Research for declaratory judgments of, among other things, invalidity and non-infringement of the '436 and '817 patents. Theis Research counter-claimed for infringement. Subsequently, Peter Theis was personally sued as a defendant. The actions were brought under 35 U.S.C. § 271 and 28 U.S.C. §§ 2201 and 2202 in the United States District Court for the Northern District of California, which had subject matter jurisdiction under 28 U.S.C. §§ 1331 and 1338. The actions were consolidated and involved other claims, defenses, patents, and parties as well.

Octel and Northern Telecom contended that each of claims 1 and 10 of the '436 patent was invalid as obvious—i.e., that in light of the differences between the claimed invention and the prior art, the claimed invention as a whole (comprising technologies of the Con Mode II) would have been obvious to a person of ordinary skill in the art. *See* 35 U.S.C. § 103(a).

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[8] Not limited to telephone applications, these claims concern a means of playing alternate messages according to the length of a response—a feature described in the original patent specification but not included in the Con Mode I.

Everything relied upon by Octel and Northern Telecom as prior art was before the patent examiner who determined the claimed invention to be non-obvious in issuing the '436 patent.[9] In contending that claim 1 of the '817 patent was obvious and anticipated, Octel and Northern Telecom again relied on *the same prior art that was before the examiner who determined that the claimed invention was neither obvious nor anticipated in issuing the '817 patent.*[10]

Numerous issues of validity and infringement of the '436, the '817, and another patent were tried to a jury over five weeks.[11] Octel set the tone in opening statement by disparaging the process by which the Patent and Trademark Office examines patents. Subsequent questioning by Northern Telecom invited the jury to speculate that the patent examiner did not do all of the work indicated by his search notes in the file wrapper, even though there was no evidence to suggest this might have happened. Octel and Northern Telecom relied heavily on the "expert" opinions of Dr. Larky.[12]

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[9] As prior art, Octel and Northern Telecom relied upon the Con Mode I, the Shepard patent, "all other prior art identified in the chain of applications leading up to the '436 patent," and "the prior art identified in the prosecution history of the '436 itself." The Shepard patent was a red herring. Their principal expert, Dr. Larky, conceded that the Con Mode I was closer than the Shepard patent to both the '436 patent and the '817 patent.

It is noteworthy that Octel and Northern Telecom never sought reexamination of the Patent and Trademark Office's patent validity determinations pursuant to 35 U.S.C. § 302.

[10] Theis Research presented testimony from a former assistant commissioner of patents who reviewed the prosecution history and stated that all of the '436 and '817 validity issues raised by Octel and Northern Telecom were before the Patent and Trademark Office examiner who determined that the patents should issue.

[11] The verdict form required the jury to decide 16 questions of patent validity, all of them ultimate issues, and 12 questions of infringement, each of which included various sub-parts.

The jury found that each of claims 1 and 10 of the '436 patent and claim 1 of the '817 patent was infringed by Octel's Aspen and Sierra VoiceForms applications under the doctrine of equivalents but not infringed by two other Octel applications or the Northern Telecom products.

The jury found that claims 1 and 10 of the '436 patent were "obvious" and that claim 1 of the '817 patent was anticipated by Con Mode I, anticipated by the Shepard patent, and "obvious." Appendix B. In moving for judgment as a matter of law, Theis Research argued that obviousness presented a question of law that had to be decided de novo by the trial court. The trial court acknowledged its role for determination of the ultimate issue, but deemed itself bound by the "presumed" subsidiary findings of the jury, and denied the motion. Appendix C.

Since Theis used a speech detector to solve the major problem of distinguishing background line noise from speech, and since speech detectors were well known to those skilled in the art at the time of the invention, the trial court erroneously assumed that the Con Mode II was obvious in light of the Con Mode I. Appendix, pp. C-3 - 4. The principal flaw in the trial court's analysis was that the *problem* was not obvious.[13] The record, including the prosecution history, set forth extensive and undisputed evidence of the complexity and difficulty of discovering the problem.[14]

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[12] Dr. Larky never designed a telephone answering system or a voice mail system, never wrote on speech processing or voice mail, and never received a patent in the telecommunications field. His work at Bell Labs did not involve any sort of announcement systems for responding to telephone calls with recordings of one kind or another and did not involve equipment or devices that did automatic telephone answering.

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[13] Discovering the source or cause of a problem is as much a basis for a patentable invention as discovering the solution. The Manual of Patent Examining Procedure governing Patent and Trademark Office examiners states in relevant part at § 2141.02 *Differences Between Prior Art and Claimed Invention*:

> "'[A] patentable invention may lie in the discovery of the source of a problem even though the remedy may be obvious once the source of the problem is identified. This is part of the "subject matter as a whole" which should always be considered in determining the obviousness of an invention under 35 U.S.C. § 103.'[Citation.]"

The jury also apparently failed to memorize this rule (which was stated succinctly in the course of a protracted trial amidst innumerable other issues).

The trial court further erred because there was no prior art teaching of the motivation to utilize a speech detector with the Con Mode I for the purpose of distinguishing speech from background line noises. The trial court "impermissibly used hindsight to reconstruct the claimed invention from prior art with the invention before it . . .." *Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 837 F.2d 1044, 1051 (Fed. Cir. 1988).

As a separate matter, the trial court failed to construe the claims of the '930 application to determine judicially the effect of *In re Theis*. Instead, the trial court simply assumed that the prior art included the Con Mode I even though it was sold as a telephone device but was inoperable for that purpose before the critical date. This misconstrues the effect of *In re Theis*, where the court stated: "Prior art is not involved in this case." 610 F.2d at 794.

[14] 35 U.S.C. § 103(a) provides in relevant part: "Patentability shall not be negative by the manner in which the invention was made." As stated in the historical and revision notes, Congress added this

The parties filed timely appeals and cross-appeals from the judgment and various post-trial orders. [15]

The Decision of the Federal Circuit

The Federal Circuit affirmed every issue raised on appeal. It reviewed under a straight substantial evidence test the jury's determinations of invalidity. "TRI's arguments do not overcome its heavy burden of demonstrating that there is no substantial evidence from which a reasonable jury could conclude that the claimed invention would have been obvious from the prior art." Appendix, p. A-7. Instead of reviewing the

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provision in the 1952 Patent Act to clarify that "it is immaterial whether [the invention] resulted from long toil and experimentation or from a flash of genius." In other words, 99% perspiration is as good a basis for a patent as 1% inspiration.

[15] The trial court upheld the jury's determinations that Claim 1 of the '817 patent was obvious and anticipated by the Con Mode I. Appendix D. Petitioner's contentions regarding the Federal Circuit's misguided jurisprudence of obviousness determinations apply with equal force to the erroneous determination that claim 1 of the '817 patent was anticipated.

The trial court denied the motion of Theis Research for judgment as a matter of law as to infringement by the other Octel applications. Appendix E. In light of the patent specification, claims, and prosecution history set forth in the file wrapper, the trial court's construction of pertinent claim terms was erroneous.

Octel and Northern Telecom spent several hundred thousand dollars making movies as part of their show for the jury. The clerk's office rejected their attempt to charge these videotape production expenses as recoverable cost items. The trial judge overrode this decision, awarding costs to Octel and Northern Telecom against Theis Research in the amount of $385,737.79.

relevant patent records directly, it counted as "substantial evidence" the opinions of Dr. Larky.[16]

The Federal Circuit was unresponsive to petitioner's emphasis that, as to all of the alleged prior art, *"[t]he PTO Examiner was aware of this prior art and* the *In re Theis* decision." (Emphasis in original.) "The Examiner was satisfied and issued the patent. Nothing has been presented by Octel et al. to show the Examiner was wrong."

As to infringement of the '436 claims by Octel's other applications (in addition to VoiceForms), the Federal Circuit simply ignored several of Theis Research's contentions as to erroneous construction of claims by the trial court. The Federal Circuit failed to undertake a de novo review of the claims construction with reference to the specification, the claims, and the prosecution history contained within the file wrapper.[17]

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[16] The Federal Circuit declined to interpret the claims in the '930 (*In re Theis*) application with respect to ascertaining the limits of the prior art applicable to the telephone applications of the '436 patent. Appendix, p. A-6. Comparing claim 1 of the '817 patent with the '930 application, Larky erroneously relied on a schematic of the specification—saying, in effect, that the invention anticipated itself. The claims of the '817 patent related to components in the specification that were not included in the Con Mode I. Appendix, pp. A-13 - 14.

[17] As to one claim element, the Federal Circuit simply relied on an extraneous statement by Peter Theis—taken out of context—concerning his subjective understanding of the meaning of the decision of the Court of Customs and Patent Appeals in *In re Theis*. Appendix, p. A-9. The Federal Circuit's reliance on "fact" testimony to construe the F.2d opinion of its predecessor typifies its failure to decide questions of law.

REASONS FOR GRANTING THE PETITION

1. Overview: Why This Case Has Important National Implications

"This is a patent case." The very words cause the eyes to glaze over. But America's independent inventors and small businesses depend heavily on the patent system. The Federal Circuit's recent approach to patent validity determinations is now flooding the patent system with uncertainty—casting a chilling effect on the inventive community, investment, and the marketing of new technologies.

The patent system is now being undermined by a combination of judicial interference and neglect that needs to be addressed by this Court. Technological innovation has played a major role in the Nation's emergence as the leader of today's world. The patent system has allowed that innovation to be achieved—perhaps best achieved—in the uniquely American climate that respects the independence of the inventive process. The source of that innovation is being chilled rather than encouraged.

Even though the obviousness or non-obviousness of a patented invention is ultimately a question of law,[18] recent years have seen a proliferation of juries deciding obviousness and other challenges by alleged infringers to patent validity.[19]

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[18] *See Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966); *Panduit Corp. v. Dennison Mfg. Co.*, 818 F.2d 1561, 1566-1567 (Fed. Cir. 1987).

[19] *See In re Lockwood*, 50 F.3d 966, 980 & n.1 (Fed. Cir. 1995) (dissent from denial of en banc rehearing), *vacated and remanded sub nom. American Airlines, Inc. v. Lockwood*, 515 U.S. 1182 (1995).

Notwithstanding the statutory presumption of validity (35 U.S.C. § 282), the Federal Circuit has placed juries in the position of redoing the work of the Patent and Trademark Office. Even where (as here) all of the prior art was before the Patent and Trademark Office when it made its determination of non-obviousness, the Federal Circuit's approach still directs a jury to start from the beginning and make a de novo determination as to patent validity. Often a jury must make these retrospective decisions many years after a patent has issued—long after the invention has become part of ordinary trade and commercial use.

The Federal Circuit now leaves juries' legal determinations of invalidity effectively unreviewed. Liberal use of a light "substantial" evidence standard characterizes the Federal Circuit's sweeping and broad-brush affirmance of every issue in this case, notwithstanding the presence of judicial questions appropriate for de novo review. Patent holders are effectively deprived of "the appellate review that is a component of the one full and fair opportunity to have the validity issue adjudicated correctly." *See Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. 83, 102 (1993).

The Federal Circuit's approach to collateral review of patent validity abandons its role of assuring national uniformity in the resolution of legal questions in patent cases. As discussed below, this erosion culminates a trend in the Federal Circuit. Admittedly, the issues in this and many other patent cases are difficult, enigmatic, and complex. *And yet the Federal Circuit's current approach disdains reliance on the one agency designed by Congress to do the heavy lifting: the Patent and Trademark Office.*

Ironically, by undermining the determinations of the Patent and Trademark Office, the Federal Circuit not only increases the workload of the courts (judges and juries) in each case, it encourages more patent litigation, escalating litigation costs and expenses, and a proliferation of "expert" testimony to reopen and reexamine the work of the Patent and Trademark Office. The Federal Circuit is fostering judicial encroachment on the executive responsibilities properly entrusted to the Patent and Trademark Office. That patent validity is ultimately a question of law does not undermine the appropriateness of judicial deference to the administrative determination of the Patent and Trademark Office. Judicial deference to the determinations of a responsible administrative agency extends to questions of law (*See Chevron U.S.A. v. Natural Res. Def. Council*, 467 U.S. 837, 844-845 (1984)), particularly with respect to a highly technical regulatory program requiring significant expertise (*Thomas Jefferson Univ. v. Shalala*, 512 U.S. 504, 512 (1994); *Pauley v. BethEnergy Mines, Inc.*, 501 U.S. 680, 697 (1991)). This accords with the presumption of patent validity set forth in 35 U.S.C. § 282.

While infringement questions may be more a matter of private concern, questions of patent validity are of importance to the public at large. *Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. at 100. The uncertainty generated by the Federal Circuit's approach permeates the industry for the life of the patent and has a chilling effect. It increases risks for investors, increases the difficulty of start-up and getting innovations to market, and encourages infringement.

Why Review an Unpublished Decision?

The unusual combination—of (1) a case worthy of review and (2) an unpublished opinion by the Court of Appeals—is no coincidence in this case. The practice of saddling juries with complex questions of law and then conducting no meaningful appellate review does not generate the kind of work product that typically gets framed in a published opinion.[20] Yet that very practice is systematically destroying the reliability of the Patent and Trademark Office's administrative process for issuing patents. This case opens a window to the Federal Circuit's actual practice and its real consequences.

The absence of a reported opinion demonstrates that the standard of review as applied in this case accords with what has become the Federal Circuit's routine practice. The Federal Circuit felt no need to explain its decision in a reported opinion when it was not deviating from its current custom and practice. "Because the Federal Circuit has exclusive jurisdiction over appeals from all United States District Courts in patent litigation," the rule that it applied in this case, and has been applying routinely, is a cert.-worthy "matter of special importance to the entire nation." *See Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. at 89.

This case has other practical implications of great significance that are not likely to receive discussion in the pages of published lower court opinions. The commercially valuable patents of independent inventors have become bait for litigation. It is no secret why a substantial infringer would prefer a random and costly litigation process over a request for reexamination of patent validity by the Patent and Trademark Office under 35 U.S.C. § 302. Rather than obtain licenses to use these patents, major infringers are economically motivated to intimidate under-financed patent holders with threats of costly trials of validity issues, disappearing deference to the Patent and Trademark Office, the statistical inevitability that sooner or later a legitimate patent claim will be defeated by a jury, and a vacuum in judicial review by the Federal Circuit. These threats are real and, therefore, effective.

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[20] Through this practice, the Federal Circuit transparently avoids the admittedly difficult task of genuinely reviewing validity determinations, mandated by this Court. *See Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. at 99-100 (affirmance of non-infringement not a proper basis to vacate validity determination to avoid the work of appellate review).

It is increasingly difficult for an independent inventor to survive the mauling of litigation to reach the doors of this Court to press the interests raised by this petition.

Fundamental Questions About the Role of the Judiciary

This case nevertheless provides the Court with the alternative of choosing narrower or broader grounds for decision. It may be used to address specifically the proper role of the courts in adjudicating particular issues that have already been determined by the Patent and Trademark Office (questions of obviousness and anticipation where the Office had before it the same prior art on which the patent is challenged). This case may also be used to address more broadly the proper roles of the Federal Circuit and of trial judges or juries in deciding questions of patent validity.

Either way, the issues are fundamental—

- the judiciary vis-à-vis the Patent and Trademark Office
- the Federal Circuit vis-à-vis the trial courts
- judges vis-à-vis juries

—and should be resolved by this Court.

2. Through Its Use of Juries and the "Substantial Evidence" Test, the Federal Circuit Has Abandoned Its Role of Assuring Consistency in Patent Validity Determinations

The Importance of Consistency

This Court has proclaimed the responsibility of the Federal Circuit to promote consistency in patent cases. In *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 116 S.Ct. 1384 (1996), the Court identified the importance of uniformity as an independent reason for patent claims to be construed by courts rather than juries. *Id.*, 116 S.Ct. 1396

> "It was just for the sake of such desirable uniformity that Congress created the Court of Appeals for the Federal Circuit as an exclusive appellate court for patent cases, H. R. Rep. No. 97-312, pp. 20-23 (1981), observing that increased uniformity would 'strengthen the United States patent system in such a way as to foster technological growth and industrial innovation.' *Id.*, at 20."

Id., 116 S.Ct. at 1396. When upholding the doctrine of equivalents as a basis for finding patent infringement, the Court noted in *Warner Jenkinson Co. v. Hilton Davis Chemical Co.*, __ U.S. __, 117 S.Ct. 1040 (1997) the responsibility of the Federal Circuit "to promote certainty, consistency, and reviewability to this area of the law." *Id.*, 117 S.Ct. at 1053 n.8.

The responsibility of the Federal Circuit to promote consistency applies with particular force to issues of patent validity. As discussed above, questions of patent validity have importance to the public at large. *Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. at 100. Uncertainty concerning patent validity affects investors, the employees of small businesses that develop innovations, and the general industry that the patent concerns, including competitors.

The Federal Circuit's failure to promote consistency in obviousness determinations is particularly surprising given the long-standing recognition that obviousness is ultimately a question of law. *See Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966); *Panduit Corp. v. Dennison Mfg. Co.*, 818 F.2d 1561, 1566-1567 (Fed. Cir. 1987). *Graham* identified several "factual inquiries" that underlie the ultimate legal question of obviousness.[21]

In *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809, 811 (1986), this Court vacated and remanded a Federal Circuit decision reversing the obviousness determination by a District Court judge. The Court directed the Federal Circuit to explain its review of obviousness determinations and to discuss whether Fed. R. Civ. P. 52(a) (clear error standard for review of findings of fact by trial judge) should apply to review of obviousness determinations. In its opinion on remand, *Panduit Corp. v. Dennison Mfg. Co.*, 818 F.2d 1561, 1566-1568 (Fed. Cir. 1987), the Federal Circuit cited and concurred with long-standing and wide-spread authority that the question of obviousness is one of law. The court acknowledged the appropriateness of Fed. R. Civ. P. 52(a) review for subsidiary factual findings by judges, and then proceeded to scrutinize the ultimate legal issue in detail, reversing the lower court's conclusion of obviousness. *Id.* at 1569, 1574-1582. The

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[21] These are: the scope and content of the prior art; differences between the prior art and the claims at issue; the level of ordinary skill in the pertinent art; and secondary considerations that might provide perspective, such as commercial success, long felt but unresolved needs, failure of others, etc. *Graham v. John Deere Co.*, 383 U.S. at 17-18.

Federal Circuit explained the importance of its diligence eleven years ago in scrutinizing a legal conclusion of obviousness:

> "The law must be the same for all patents and types of inventions. A level playing ground for the marketplace of ideas is as necessary for technological innovation as it is for politics and social policy."

Id. at 1573-1574.

The Proliferation of Juries in Patent Cases

While the Federal Circuit in *Panduit* methodically reviewed the obviousness determination by a trial court judge, a developing trend would set the stage for the Federal Circuit's eventual abandonment of meaningful review: the proliferation of juries in patent cases. While jury trials comprised less than 4% of patent trials between 1968 and 1970, 60% of patent trials from 1992 to 1994 were tried to juries, and by 1994, 70% of patent trials were tried to juries. *See In re Lockwood*, 50 F.3d 966, 980 & n.1 (Fed. Cir. 1995) (dissent from denial of en banc rehearing), *vacated and remanded sub nom. American Airlines, Inc. v. Lockwood*, 515 U.S. 1182 (1995).

Legal determinations of validity, however, are not made ~~appropriate~~ for jury deliberations by the fact-based nature of the underlying inquiries.[22] The analysis adopted by this Court in *Markman v. Westview Instruments, Inc.* with respect to the role of courts in interpreting patent claims is germane to patent validity issues:

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[22] Dissenting in *In re Lockwood*, Judge Nies argued forcefully that while damages claims for infringement are properly subject to a right to jury trial, the validity of a patent involves public rights, not private rights, and no Seventh Amendment jury rights adhere to a determination of public rights. *Id.*, 50 F.3d at 981-983.

> "'Where technical terms are used, or where the qualities of substances or operations mentioned or any similar data necessary to the comprehension of the language of the patent are unknown to the judge, the testimony of witnesses may be received upon the subjects, and any other means of information be employed. *But in the actual interpretation of the patent the court proceeds upon its own responsibility, as an arbiter of the law, giving to the patent its true and final character and force.*'"

116 S.Ct. at 1394-1395 (emphasis added by the Court).

The Abandonment of Review of Obviousness Verdicts

In *Connell v. Sears Roebuck & Co.*, 722 F.2d 1542, 1547 (Fed. Cir. 1983), the Federal Circuit held that the question of obviousness may be submitted to a jury, but suggested the use of interrogatories to aid in judicial review of the verdict. Subsequently, the Federal Circuit endorsed submission of the ultimate question of obviousness to the jury without requiring any subsidiary findings. *See Jurgens v. McKasy*, 927 F.2d 1552, 1557 (Fed. Cir. 1991). The Federal Circuit then described a two-step method of judicial review: first, the court presumed that the jury resolved the underlying factual disputes in favor of the verdict winner and left those "presumed" findings undisturbed if they were supported by substantial evidence; second, the court examined the legal conclusion de novo to see whether it was correct in light of the "presumed" jury fact findings. *Id.* at 1557.

Ultimately, the Federal Circuit abandoned any pretense of "second step" de novo review of the ultimate legal question. In authority relied upon by Octel in its briefing to the Federal Circuit below, the Federal Circuit held in *U.S. Surgical Corp. v. Ethicon, Inc.*, 103 F.3d 1554, 1559 (1997) that in reviewing jury verdicts holding patent claims invalid for obviousness, so long as the instructions were correct, the court simply determines whether "there was substantial evidence whereby a reasonable jury could have reached the verdict reached by this jury." In the judgment below, the Federal Circuit employed this minimalist standard: "TRI's arguments do not overcome its heavy burden of demonstrating that there is no substantial evidence from which a reasonable jury could conclude that the claimed invention would have been obvious from the prior art." Appendix, p. A-7.

As a practical matter, the "substantial evidence" standard of review is no standard at all in these cases. Parties will always be able to find hired gun "expert" witnesses to put on the stand. The infringer of a commercially valuable patent will always find it worth investing in "expert" witnesses. Inevitably, the "evidence" of the "expert's" opinion will always be found to satisfy "'that minimum quantum of evidence from which a jury might reasonably afford relief.'" *U.S. Surgical Corp. v. Ethicon*, 103 F.3d at 1559. This truth is demonstrated in the decision below by the Federal Circuit's liberal reliance on the opinions of Dr. Larky in affirming the obviousness verdicts as to the '436 and '817 patents. Appendix, pp. A-5 - 7, A-13 - 14.

One Federal Circuit judge recently admitted that the current practice leaves jury verdicts of obviousness effectively unreviewed:

> "But when the issue of obviousness may properly go to the jury, how can the jury's fact findings be separated from its legal determination? Absent special verdicts or interrogatories, the fact findings of the jury are unknown and must be inferred from the jury's verdict. This approach is cumbersome and may allow jury errors to go uncorrected."

(Circuit Judge) Paul R. Michel & Michelle Rhyu, *Improving Patent Jury Trials*, 6 Fed. Circuit B.J. 89 (1996).

In *Warner Jenkinson Co., Inc. v. Hilton Davis Chemical Co.*, this Court noted "concern over unreviewability due to black box jury verdicts, ..." 117 S.Ct. at 1053 n.8. The Court provided the Federal Circuit with guidance as to means for preserving reviewability of verdicts on infringement claims under the doctrine of equivalents (for which there is a right to jury trial.) *Id.* The Court concluded, "We leave it to the Federal Circuit how best to implement procedural improvements to promote certainty, consistency, and reviewability to this area of the law." *Id.* The demise of meaningful review of obviousness determinations demonstrates that the Federal Circuit has moved in a direction contrary to the guidance provided by this Court. Certiorari is appropriate to correct the course.

3. The "Clear and Convincing Evidence" Standard Does Not Afford True Deference to the Administrative Determinations of the Patent and Trademark Office

35 U.S.C. § 282 mandates that a patent shall be presumed valid and that the burden of establishing invalidity of a patent or any patent claim shall rest on the party asserting such invalidity. The Federal Circuit previously recognized that the burden of attacking patent validity should be particularly great where all of the material prior art was before the Patent and Trademark Office when it issued the patent. *American Hoist & Derrick Co. v. Sowa & Sons*, 725 F.2d 1350, 1359 (Fed. Cir. 1984).

In theory, it might be suggested that the "clear and convincing evidence" standard applicable to all challenges to patent validity might be sufficient to foster deference to the administrative determination. In the real world of jury trial practice, however, this simply does not happen.

Where the material prior art was before the patent examiner, the only effective means to assure deference is to require the party asserting invalidity to demonstrate clear error by the Patent and Trademark Office. Instead, the approach now followed by the Federal Circuit always starts the jury at ground zero to retry the same issues based on the same evidence—except that "expert" opinions are introduced to challenge the judgment call previously made by the Office.

The same complexities and technical difficulties that underscore the appropriateness of deference have the opposite effect when these issues are tried to a jury de novo. Lacking the training and expertise to take command of numerous enigmatic issues (both legal and technical), jurors are likely to become captives of the "expert" witnesses who are hired to give opinions.

This creates a major obstacle to deference: the chair of the patent examiner is empty. It defies human nature to ask jurors to place more confidence in a patent examiner who—as far as the jurors are concerned—is a ghost, rather than the polished "experts" who develop a personal rapport with the jurors at the trial (particularly when the jurors hear comments disparaging the examination process of the Patent and Trademark Office).

The deference to be accorded by the judiciary to the patent validity determinations of the Patent and Trademark Office—both in theory and in practice—is a fundamental issue appropriately resolved by this Court.

4. Compared to the Patent Examiners, a Jury Is at an Astonishing Disadvantage to Make Correct, Fully-Informed Decisions

To a juror coming into the trial of this case, it must have felt like entering a foreign country without knowing the language—and then being told to promulgate its laws at the end of 5 weeks.

The lower courts in this case simply substituted the jury's judgment call for that of the Patent and Trademark Office. That begs a comparison of the processes by which the jury and the patent examiner make their respective decisions, bearing in mind that "it is more difficult to determine whether a patent is valid than whether it has been infringed . . . ." *See Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. at 99.

Jurors commence their review of a case without any particular training or experience in either the technical field or the law of patent invalidity. They are asked to learn quickly the details of highly technical information, without any substantive knowledge of a highly complicated field of law.[23] In this case, the jury heard five weeks of testimony and then, all at once, was asked to rely on memory to decide some 30 ultimate issues concerning 3 separate patents and 4 patent claims.

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[23] Because jurors are generally not instructed until after closing, it is particularly difficult for them to recognize what evidence is significant in such an esoteric area of the law. Further, explanations by witnesses of complex scientific information are frequently interrupted by objections and lawyer colloquies, not infrequently distracting the jurors at moments of critical testimony.

With respect to obviousness, a jury is given the incredible burden of determining what would or would not have been obvious to a person of "ordinary skill in the art" *at the time of the invention*, deciding *many years after the fact*, what this hypothetical person would have known and thought.[24]

By contrast, patent examiners are technical specialists who work in groups organized by particular disciplines. Examiners study the facts while reviewing the legal criteria simultaneously. They have at their disposal one of the great libraries of scientific and technical information in the world. A primary examiner is assisted by another examiner and their work is supervised. The examiner evaluating an issue of obviousness generally has the opportunity to make that determination at a point much closer in time to the invention than the jury's determination. In sum, the examiner is in a far superior position to make the judgment call required by validity determinations.

5. The Federal Circuit Should Review the Construction of Patent Claims De Novo in Light of the Specification, Claims, and Prosecution History Available to the Public

In *Markman v. Westview Instruments, Inc.*, the Court held that construction of patent claims is properly allocated to judges rather than juries. In rejecting arguments that the need to rely on expert testimony required juries to weigh the credibility of such witnesses, the Court eschewed the aggrandizement of expert opinions in patent claim construction—emphasizing instead the immutable duty of the judge to construe claims in light of the patent document. *Id.*,116 S.Ct. at 1384 (duty to determine whether definition "comports with the specification and claims and so will preserve the patent's internal coherence").

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[24] The jury is asked not only to learn substantial amounts of deeply technical information, it is asked to strip away all awareness of the present world—going back in time to the moment when the invention was made and well before the invention has lost its novelty and become part of everyday use and commercial trade.

In this case, the trial court misconstrued the patent claims. On appeal, the Federal Circuit failed to construe the claims de novo according to the specification, claims, and prosecution history set forth in the file wrapper.[25]

In *Markman*, this Court did not have occasion to decide whether Federal Circuit review of patent claim construction by trial courts should be de novo. Nevertheless, the Court's emphasis on the importance of national uniformity strongly supports de novo review of claim construction by the Federal Circuit. *See id.*, 116 U.S. at 1396.

Because the Federal Circuit has subsequently held en banc in *Cybor Corp. v. FAS Technologies, Inc.* (Fed. Cir. Nos. 96-

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[25] Construing the claims of a patent according to the specification, the claims, and the prosecution history contained within the file wrapper best promotes public knowledge and understanding of the meaning of the claims. *See Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 978-979 (Fed. Cir. 1995), *aff'd* 517 U.S. 370 (1996).

The patent document and the file wrapper are public documents. The public should not be surprised at a later date by the construction of claims based on extraneous evidence or subjective intent. *See Markman v. Westview Instruments, Inc.*,116 S.Ct. at 1396 ("'[t]he limits of a patent must be known for the protection of the patentee, the encouragement of the inventive genius of others and the assurance that the subject of the patent will be dedicated ultimately to the public'").

1286, -1287 Mar. 25, 1998) that patent claim construction should be reviewed de novo, petitioner alternatively requests this that Court grant, vacate, and remand to the Federal Circuit for reconsideration in light of its subsequent decision in *Cybor*.

6. An Inventor's Own Work Should Not Be Classified As "Prior Art" by Virtue of the "On Sale" Bar When the Work Was Not Fully Completed With Respect to the Patented Invention

The Court has granted certiorari in *Pfaff v. Wells Electronics, Inc.*, (No. 97-1130) to address whether a patent should be held invalid under the "on sale bar" of 35 U.S.C. § 102(b) where the invention was not "fully completed" one year before the filing of the patent application. This case presents the same basic issue within the context of defining prior art for obviousness determinations.[26] The Federal Circuit's current application of the one-year "on sale" trigger to products that are not fully complete demonstrates a striking lack of appreciation for the real world of independent inventors and small businesses.[27]

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[26] In *Pfaff*, the product was not complete because it had not been built. In this case, the Con Mode I was not complete because it was inoperable. The Con Mode I was marketed as a telephone device and failed to work as such before the critical date. It should not have been treated as prior art for telephone use by virtue of the simple fortuity that it had non-telephone alternate uses.

[27] Lacking the funds needed for a "real world" laboratory test, independent inventors and small businesses must test their products in the marketplace. Because of the complexity and sophistication of modern inventions—and the frequency with which they involve innovations that are integrated with other products—small businesses

CONCLUSION

Based on the foregoing, Theis Research respectfully requests that the Court grant this petition.

Respectfully submitted,

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Theis Research, Inc.

April 29, 1998

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and independent inventors increasingly have to finish their innovations in the marketplace. They have no alternative.

Furthermore, small businesses and independent inventors are not typically equipped with an in-house staff of patent attorneys or discretionary funds to prosecute applications for inventions that may or may not prove workable.

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NOTE: Pursuant to Fed. Cir R. 47.6, this disposition is not citable as precedent. It is a public record. The disposition will appear in tables published periodically.

United States Court of Appeals for the Federal Circuit

97-1176, -1178, -1179

OCTEL COMMUNICATIONS CORPORATION,

Plaintiff/Cross-Appellant,

and

NORTHERN TELECOM, INC.,

Plaintiff/Cross-Appellant,

and

PACTEL MERIDIAN SYSTEMS,
BOSTON TECHNOLOGY, INC.
and DIGITAL SOUND CORPORATION,

Plaintiffs,

v.

THEIS RESEARCH INC. and PETER F. THEIS,

Defendant-Appellants.

DECIDED: November 6, 1997

Before SCHALL, Circuit Judge,
SKELTON, Senior Circuit Judge,
and BRYSON, Circuit Judge.

BRYSON, Circuit Judge.

Theis Research, Inc., and Peter F. Theis (collectively, TRI) appeal from a judgment of the United States District Court for the Northern District of California following a jury trial in this patent infringement case. Octel Communications Corporation (Octel) and Northern Telecom, Inc. (NTI) cross-appeal from certain aspects of the same judgment. Although the parties have raised a multitude of issues, we conclude that the district court did not commit reversible error with regard to any of them. We therefore affirm the judgment in all respects.

BACKGROUND

At issue in this appeal are five U.S. patents owned by TRI that relate to automated telephone answering systems. U.S. Patent No. 4,539,436 (the '436 patent) describes a voice-actuated telephone answering machine sold by TRI under the name "Con Mode." U.S. Patent No. 4,692,817 (the '817 patent) contains the same written description as the '436 patent, but claims different features of the disclosed machine. U.S. Patent No. 4,719,647 (the '647 patent) describes a message retrieval system that includes a plurality of answering machines with associated message memory units. U.S. Patent No. 4,439,635 (the '635 patent) generally describes a message delivery system that includes a plurality of playback units, each of which stores a segment of a voice message. Finally, U.S. Patent No. 4,150,255 (the '255 patent) describes a call distributor and holding system that permits one or more operators to service a large number of callers. The '436 and '817 patents claim priority to an earlier patent application, the claims of which were held to be invalid under 35 U.S.C. § 102(b) due to prior sales of the Con Mode system. See In re Theis, 610 F.2d 786,201 USPQ 188 (CCPA 1979).

Octel designs, manufactures, and sells voice information processing systems that operate over touch-tone telephone lines. Octel's systems include the Sierra and Aspen systems, each of which can be configured to operate in one of three different applications: a telephone answering application, a voice mail application, or a Voice Forms application.

NTI's Meridian Mail and Startalk systems are voice mail and telephone answering systems that provide multiple voice processing features accessible through a touch-tone keypad. NTI's AABS system operates within a public switched telephone network to automatically interact with a caller in order to handle credit card calls, collect calls, and third party billing calls.

DISCUSSION

Octel and NTI sued TRI, seeking a declaratory judgment that their products do not infringe TRI's patents and that TRI's patents are invalid and unenforceable. TRI counterclaimed, alleging that various Octel and NTI products infringe the TRI patents.

After the district court granted summary judgment on several issues, and after the court conducted a bench trial on Octel's and NTI's claim of inequitable conduct, the remaining issues were tried to a jury. The jury found a number of TRI's patent claims invalid and found that Octel and NTI did not infringe those claims that were not invalidated. Having lost on most of the contested issues at trial, TRI raises a large number of points on appeal to this court.

I. The '436 Patent

The parties appeal seven issues concerning the '436 patent. The jury found claims 1 and 10 of TRI's patent to be invalid for obviousness and, with one exception, not infringed by Octel and NTI. TRI appeals the district court's denial of its motion for judgment as a matter of law (JMOL) on the validity and infringement issues. Octel appeals the district court's denial of its motion for JMOL with respect to the one system that the jury found to infringe. NTI appeals the denial of its motion for JMOL on its claim that the '436 patent is invalid for failure to disclose the best mode.

A. Validity

1. Obviousness

The jury found claims 1 and 10 of the '436 patent invalid under 35 U.S.C. § 103 as being obvious in light of U.S. Patent No. 3,300,586 (the Shepard patent) and Con Mode I, a device that was on sale more than one year before the application filing date. The district court denied TRI's motion for JMOL on this issue.

Claim 1 covers an apparatus for carrying on a programmed telephone conversation with a respondent. Among other things, the recited apparatus requires an "interface means for coupling said apparatus to the telephone line"; "a speech detector coupled to the interface means"; and "detecting means, coupled to said speech detector, for detecting a pause in said voice communication of the respondent." Claim 10 is similar to claim 1, but it contains additional limitations requiring that the claimed device be able to operate in both an incoming mode and an outgoing mode, and requiring "means . . . for substantially instantaneously switching said system to said incoming mode."

TRI argues that there is no substantial evidence that the prior art discloses or suggests either the recited "speech detector" or the recited "interface means." We have reviewed the record carefully, and we conclude that the jury's verdict is supported by substantial evidence.

The '436 patent specification describes the recited speech detector as "a conventional voice actuation circuit, which is for sensing silence (absence of speech) intervals." NTI's expert, Dr. Larky, testified that the prior art Con Mode I device included a type of speech detector and that Shepard showed the recited speech detector. Mr. Prentice, one of TRI's witnesses, admitted that the noise threshold circuit included in the prior art Con Mode I device was intended to detect speech. Another TRI witness, Dr. Gibson, agreed that speech detectors were well known before the patent application was filed, and that the Shepard patent disclosed a "multiple syllable detector to distinguish between yes or no." In addition, Mr. Theis, the inventor, swore in a 1978 affidavit that the Con Mode I device contained a "voice recognition circuit to identify when a caller is talking," although he contended that the circuit failed to perform properly.

Mr. Theis stated in a 1984 affidavit to the PTO that "speech detectors" were well known in the art as of 1974 (the filing date of the '436 patent application) and were even included in the RDM-ZR telephone interface commonly available at that time. At trial, Mr. Theis testified that the recited speech detector design was taken from the "widely distributed, widely used, well-known" RDM-ZR interface.

Regarding TRI's argument that the claimed invention could not have been obvious over the allegedly inoperative Con Mode I, Mr. Theis at trial downplayed the innovation involved in the replacement of the allegedly inoperative voice actuation circuit with the recited speech detector. According to Mr. Theis, the replacement was accomplished simply by "look[ing] to see what was available in the marketplace." As the Supreme Court long ago stated, "reading a list and selecting a known [element] to meet known requirements is no more ingenious than selecting the last piece to put into the last opening in a jig-saw puzzle. It is not invention." Sinclair Co. v. Interchemical Corp., 325 U.S. 327, 335, 65 USPQ 297, 301 (1944). Accordingly, it was reasonable for the jury to conclude that the claimed "speech detector" was either disclosed or suggested by the prior art.

As for the "interface means" limitation, TRI argues that the phrase "interface means for coupling said apparatus to the telephone line" should be interpreted as "an apparatus coupled to the telephone line and the speech detector which can detect an incoming call, seize the line, transmit the signals on the line to the system, determine when the caller has hung up, and hang up." We decline TRI's invitation to read such limitations into the claim language, and we also reject TRI's suggestion that the recited phrase should be read without regard to 35 U.S.C. § 112, ¶ 6.

TRI admits that the prior art Con Mode I unit included "a line control card that interfaced with the telephone line and recognized a ring signal, seized the telephone line, and released the line when the apparatus finished its cycle." Other evidence in the record shows that this limitation (or obvious variations) was in the prior art. For example, Dr. Larky testified that the Shepard patent disclosed the recited interface means. Mr. Theis's affidavit, submitted to the PTO to secure allowance of the patent, acknowledged that an RDM-ZR – the structure corresponding to the recited "interface means" in the '436 patent – "was a known prior art device." Concerning TRI's assertions that the prior art Con Mode I was inoperative over telephone lines, the Court of Customs and Patent Appeals remarked as to that very device: "We find it difficult to imagine that appellant would demonstrate an inoperative system at a trade show and elsewhere in an attempt to drum up business." In re Theis, 610 F.2d at 794, 204 USPQ at 195.

TRI mentions in passing two other limitations in the '436 patent – the "means . . . for detecting a pause in [the] voice communication of the respondent" and, in claim 10, the "means for substantially instantaneously switching [the] system" to the outgoing or incoming modes. Contrary to TRI's suggestion, there was substantial evidence that both of those limitations were found in the prior art, as Dr. Larky testified that the Shepard patent disclosed both limitations.

TRI's arguments do not overcome its heavy burden of demonstrating that there is no substantial evidence from which a reasonable jury could conclude that the claimed invention would have been obvious from the prior art. Instead, TRI invites us to reweigh the evidence presented to the jury, which is not our task in reviewing a jury verdict.

2. Best Mode

The jury found that the'436 patent was not invalid under 35 U.S.C. § 112 for failing to disclose the best mode. NTI appeals the district court's denial of its motion for JMOL on this issue, arguing that the patent failed to disclose sufficient details of the recited "speech detector." In support of its position, NTI points to the terse reference to the recited speech detector in the written description, which merely notes that the speech detector "may be a conventional voice actuation circuit," and to various statements made by Mr. Theis, which suggest that he expended considerable effort in identifying the type of speech detector needed to overcome inoperability problems.

Although the speech detector is mentioned only briefly in the '436 patent, the evidence shows that speech detectors were well known in 1973, and Dr. Gibson testified that one of ordinary skill in the art would be able to determine the structure of a speech detector from reading the specification, even though no schematic diagram was included. In view of that evidence, NTI has failed to persuade us that the jury was obliged to conclude that the best mode was effectively concealed. See Spectra-Physics, Inc. v. Coherent, Inc., 827 F.2d 1524, 3 USPQ2d 1737 (Fed. Cir. 1987).

B. Infringement

TRI alleges that five Octel and NTI systems infringe claims 1 and 10 of the '436 patent. We discuss each system separately.

1. Octel's Telephone Answering Application

The jury found that Octel's telephone answering application does not infringe claims 1 and 10 of the '436 patent. TRI appeals the district court's denial of its motion for JMOL on that issue, arguing that (a) the district court incorrectly defined the term "speech detector"; (b) the district court erred in interpreting the claims to require multiple voice responses from a caller; and (c) there is no substantial evidence to support the jury's verdict that claims 1 and 10 are not infringed by Octel's telephone answering application.

As to point (a), the definition of "speech detector" that TRI proposes is not significantly different from the definition that the district court adopted. TRI's objection to the court's definition focuses on the court's use of the term "goal" ("The goal of a speech detector is to sense and respond to speech-like signals and not to be triggered by non-speech signals"), which TRI argues is misleading. The court's language, however, is merely a rephrasing of another portion of the court's definition, which TRI does not contend is inaccurate ("speech detector" is "a specialized type of noise filter which is designed to respond preferentially to speech, as opposed to other noises"). Mr. Theis himself testified during trial that a speech detector detects "speech-like characteristics" and ignores non-speech signals such as background noise and line noise. Moreover, TRI's own expert admitted during trial that devices that recognize dial tones, busy signals, and ring signals are not "speech detectors." In view of that evidence, we find no error in the district court's definition.

As to point (b), TRI argues that the district court improperly added limitations to the claims by requiring voice responses instead of responses in non-vocal forms such as touch-tone signals. Mr. Theis, however, admitted that in In re Theis he lost patent rights to nonspeech responses, including touch-tone signals. The district court was therefore justified in concluding that touch-tone signals do not qualify as "responses" within the meaning of the '436 patent claims.

As to point (c), there was substantial evidence before the jury that Octel's answering application lacks the "speech detector" recited in claims 1 and 10 of the '436 patent. Mr. Olson testified that the Octel systems do not include the recited "speech detector"; the Octel systems, he testified, would even respond to music and modem signals. Mr. Prentice, TRI's own witness, testified that Octel's systems recognize special tones, unlike speech detectors, which do not.

Finally, TRI contends that because the jury found that Octel's Voice Forms application infringed the claims under the doctrine of equivalents, Octel's telephone answering application must also be held to infringe because of evidence suggesting that the same hardware and software are used in both the Voice Forms and the telephone answering applications. Contrary to TRI's assertion, there was substantial evidence from which the jury could conclude that the Voice Forms application operated in an entirely different manner from the telephone answering application. Moreover, the evidence showed that the Voice Forms application was supplied as a separately purchased item and therefore would not necessarily contain the same functions as the telephone answering application.

2. Octel's Voice Forms Application

The jury found that Octel's Voice Forms application infringes claims 1 and 10 of the '436 patent under the doctrine of equivalents. The district court denied Octel's motion for JMOL, and Octel appeals.

The crux of Octel's argument is that the only evidence offered at trial on infringement under the doctrine of equivalents was a series of conclusory responses by TRI's expert, Mr. Prentice. Octel also argues that its Voice Forms application was never identified by name during the testimony on infringement.

As Octel notes, a finding of infringement under the doctrine of equivalents requires particularized testimony showing equivalence on a limitation-by-limitation basis. See, e.g., Texas Instruments, Inc. v. Cypress Semiconductor Corp., 90 F.3d 1558, 1567, 39 USPQ2d 1492, 1499 (Fed. Cir. 1996). Octel's position is undercut, however, by the testimony of Octel's founder, Mr. Olson, who admitted that if Octel's systems were determined to have the recited "speech detector," they would infringe claims 1 and 10 of the '436 patent both literally and under the doctrine of equivalents. Consequently, particularized testimony was required only as to the recited speech detector. That testimony was provided by Dr. Gibson, who testified that Octel's Aspen and Sierra systems include components that operate in much the same way as the speech detector claimed in the patent.

Octel's objection that the Voice Forms application was never identified by name is answered by the following testimony from Mr. Olson:

QUESTION: What options on the system under claim 10 would be both literally and – would both literally and under the doctrine of equivalents infringe if Octel's systems had a speech detector?

ANSWER: Voice Forms would be the one I would pick.

3. NTI's Startalk System

The jury found that NTI's Startalk system does not infringe claims 1 and 10 of the '436 patent. The district court denied TRI's motion for JMOL to overturn the jury's verdict. On appeal, TRI urges that the evidence was insufficient to support the verdict. In fact, however, there was substantial evidence from which a reasonable jury could find that NTI's Startalk system did not infringe. At trial, Mr. Mundy, an NTI engineer who helped design the Startalk system, testified that the system does not have the recited "speech detector." Furthermore, Dr. Larky testified that Startalk is not preferential to speech and lacks several of the other claimed limitations. The jury's verdict therefore must be upheld.

4. NTI's Meridian Mail System

The jury found that NTI's Meridian Mail system does not infringe claims 1 and 10 of the '436 patent. The district court denied TRI's motion for JMOL on this issue, and TRI appeals. We conclude that substantial evidence supports the jury's finding of non-infringement. Dr. Larky testified that Meridian Mail does not have a speech detector, but instead records everything other than touch tones. He also testified that Meridian Mail lacks the recited interface means for coupling to a telephone line.

5. NTI's AABS System

The jury found that NTI's AABS system does not infringe claims 1 and 10 of the '436 patent. In denying TRI's motion for JMOL on this issue, the district court concluded that there was substantial evidence to support the jury's verdict.

We agree with the district court that substantial evidence supports the jury's verdict. For example, Mr. Solpietro, an NTI engineer, testified that the AABS system does not discriminate between speech and non-speech, thus negating the recited "speech detector" limitation. In addition, Dr. Larky testified that the AABS system includes neither the recited speech detector nor the recited means for interfacing to a telephone line.

II. The '817 Patent

As a preliminary matter, Octel argues that this court lacks subject matter jurisdiction to review TRI's appeal of the validity of the '817 patent because TRI failed to appeal the district court's finding of non-infringement. Octel asserts that there is no remaining case or controversy concerning the '817 patent since infringement is no longer in issue. That argument, however, was rejected by the Supreme Court in Cardinal Chemical Co. v. Morton International, Inc., 508 U.S. 83 (1993), and we therefore reject Octel's jurisdictional argument.

On the merits, TRI appeals the portion of the judgment holding claim 1 of the '817 patent invalid as anticipated or obvious over the prior art. NTI appeals the district court's refusal to set aside the jury's verdict that the best mode was disclosed in the '817 patent.

A. Obviousness

The jury found claim 1 of the '817 patent invalid because it was (a) anticipated by Shepard; (b) anticipated by Con Mode 1; and (c) obvious in light of the prior art. On TRI's motion to overturn the verdict, the district court agreed that Shepard did not disclose all of the recited elements. The court ruled, however, that there was substantial evidence that claim 1 was anticipated or rendered obvious by Con Mode I.

The '817 patent is a continuation of the '436 patent, but it claims different features of the disclosed invention. Unlike the claims of the '436 patent, claim 1 of the '817 patent does not include a speech detector or interface means, and it is not limited to telephone applications. In summary, claim 1 recites an apparatus for carrying on a programmed conversation with a respondent, which includes a message storage unit, a response recorder unit, a pause detector, an alternate message storage unit, and means for activating the alternate message storage unit. The claimed invention permits a programmed conversation to be altered by playing an alternative audio message rather than the next audio message in a sequence if the duration of the respondent's response is shorter than a specified time.

On appeal, TRI argues that there is no substantial evidence to support the finding that the prior art renders obvious the recited "alternate message storage unit" limitation or the recited "means for activating the alternate message storage unit" limitation. TRI also flatly states that "no other prior art in evidence discloses or suggests any such structure," although TRI elsewhere concedes that "Shepard does have alternate message storage units."

There is substantial evidence from which the jury could find that claim 1 was anticipated by or obvious over the prior art. Dr. Larky explained to the jury with the aid of detailed exhibits that claim 1 of the '817 patent is nearly identical to claim 17 of Mr. Theis's 1975 patent application, a claim that was previously held to be invalid based on the sale of Con Mode I. See In re Theis, supra. Dr. Larky further explained how the recited elements, including both the "alternate message storage unit" limitation and the "means for activating that storage unit" limitation, were contained in Con Mode I.

Mr. Theis himself admitted that the "general concept" claimed in the '817 patent was also claimed in the 1975 application, and he acknowledged that the claims of that application were held to be invalid in In re Theis. We reject TRI's suggestion that the features of Con Mode I, which was held to be on sale, are identified exclusively by the claims of that rejected application. The jury had before it affidavits and testimony from various witnesses concerning what was contained in the Con Mode I units, evidence from which it could reasonably draw inferences and conclusions. In view of the evidence in the record, TRI has failed to establish reversible error with respect to the jury's verdict on the validity of claim 1 of the '817 patent.

B. Best Mode

The jury found that claim 1 of the '817 patent was not invalid for failure to disclose the best mode, and the district court denied NTI's motion for JMOL. Although the '817 patent does not recite a speech detector, NTI argues that the recited "pause detector" is the same circuit as the speech detector, and that he '817 patent suffers from the same "best mode" deficiency as the '436 patent.

Our conclusion that the district court properly upheld the jury's verdict on best mode for the '436 patent disposes of the issue with respect to the '817 patent. NTI has failed to establish that the speech detector/pause detector was concealed or otherwise inadequately disclosed to allow one of ordinary skill in the art to practice the best mode.

III. The '647 Patent

The '647 patent describes a message retrieval system that includes a plurality of answering machines, message memory units (MMUs), and retrieval consoles. Incoming telephone calls are automatically answered and information from callers is recorded on MMUs for later playback and transcription by operators. Alternatively, the operators can conduct interactive dialogue with callers and can switch back and forth between dialogue mode and transcription mode as needed.

Claim 1 of the '647 patent, the only claim at issue, recites a message retrieval system including a retrieval console coupled to a plurality of MMUs, means for determining the age of messages stored in the MMUs and generating an alarm signal indicating excessive delays between storage and playback, and means for automatically modifying the system in response to the alarm signal.

The jury found that claim 1 was either anticipated or rendered obvious by the prior art Con Mode 3020. The district court, however, granted TRI's motion for JMOL on that issue, holding that there was insufficient evidence that the prior art disclosed or suggested the recited "means for automatically modifying the system."

The jury also found that none of Octel or NTI products infringe claim 1 of the '647 patent. The district court denied TRI's motion for JMOL, refusing to disturb the verdict of non-infringement. Octel appeals the district court's ruling on validity, and TRI appeals the district court's ruling on infringement.

A. Validity

The jury found that claim 1 of the '647 patent was anticipated or rendered obvious by Con Mode 3020, a system that was on sale more than one year prior to the filing date of the application. The district court instructed the jury that one of the three limitations in the claim, the first two were included in Con Mode 3020. Thus, the only issue for the jury was whether the third limitation ("means for automatically modifying the system in response to the alarm signal to adapt the system to excessive delays between message storage and playback") was disclosed or obvious over Con Mode 3020. Octel contends that there was substantial evidence from which the jury could reasonably have concluded that the recited "means for automatically modifying the system" was disclosed in the prior art, and that the district court therefore erred in granting TRI's motion for JMOL on this issue.

The written description in the '647 patent describes the way the system adapts to excessive delays between the recording and transcription of calls. It states that the system includes

> means for monitoring a parameter indicative of the age of messages stored in message memory units and for automatically generating an alarm signal in the event the parameter exceeds a threshold indicative of excessive delays between the time of recording and the time of playback of messages stored in the message memory unit. In addition, means are provided for modifying the system in response to the alarm signal to adapt the system to excessive delays between message recording and playback. For example, in the preferred embodiment described below, the

> modifying means operates to prevent further messages from being recorded on a message memory unit until the excessively old messages have been transcribed. In this way, excessive callback delays are avoided.

Octel notes that its expert, Mr. Gafford, presented evidence showing that (a) the "means for modifying" disclosed in the '647 patent is a software switch that is the same switch used to flash a light when message delays exceed a predetermined time limit; (b) Con Mode 3020 included such a switch for flashing a light; (c) the recited switch performed a function that was the same as or equivalent to the function performed by the Con Mode 3020 delay alarm; and (d) based on the level of skill in the art, any differences between the indicators provided in Con Mode 3020 and the recited "means for modifying" would have been obvious to one of ordinary skill in the art. Octel argues that the switch constitutes the structure for performing the recited "means for automatically modifying the system," and that the actual modification (e.g., disabling an MMU) is not part of the claim. TRI argues, and the district court agreed, that Mr. Gafford's testimony merely established that Con Mode 3020 had a switch that enabled the system to extend its notification of excessive delay, but that the switch did not constitute "means for automatically modifying" the system, as required by the claim.

We conclude that the district court's analysis is correct. Mr. Gafford testified, in essence, that the recited "means for automatically modifying the system" should be interpreted to include a switch that can perform any of various notification functions that might permit an operator to take some action. His testimony, however, was premised on an unduly broad interpretation of the term "automatically modifying the system." This term connotes a change in the structure or properties of the claimed system without human intervention. The written description provides three examples of "automatically modifying the system": (1) disabling the MMU from receiving more calls; (2) changing the prerecorded message in the answering machine to indicate a longer callback time to callers; and (3) connecting additional retrieval consoles. Mr. Gafford testified that the required "means for automatically modifying the system" would be provided by any means that provoked something or someone to "respond to the alert signal . . . and to take some action," such as "a light that flashes twice a second that an operator can see, an alert tone or horn that makes a sound when this alarm occurs." In his examples, however, the "means" do not result in any automatic change in the structure or properties of the claimed system, but merely provide a human operator notice that a change needs to be made. The jury was thus presented with an incorrect yardstick with which to measure the prior art Con Mode 3020 system.

Moreover, Mr. Gafford testified that the structure disclosed in the '647 patent for performing the recited "automatic modifying" was nothing more than a software switch contained in software running in a microprocessor. That testimony is inconsistent with the patent specification itself. For example, in order to perform the function of disabling the MMU in the '647 patent, a separate "disable MMU" signal is generated through decoding logic, latches, and an output buffer on a unit interface card. Mr. Gafford's testimony similarly fails to account for the structure required to perform the "automatically modifying" functions of changing the prerecorded message or automatically interconnecting additional retrieval consoles as described in the '647 patent. By limiting the "means for modifying" to a single switch, Mr. Gafford's testimony disregards those alternative embodiments. Accordingly, Mr. Gafford's conclusion that the Con Mode 3020 system included the recited "means for automatically modifying" its system to adapt to excessive delays between message storage and playback was based on incorrect claim interpretation and did not provide the substantial evidence from which a reasonable jury could have concluded that claim 1 was anticipated or rendered obvious by Con Mode 3020. The district court therefore did not err in granting TRI's motion for JMOL on this issue.

B. Infringement

The jury found that Octel's Sierra and Aspen systems did not infringe claim 1 of the '647 patent, either literally or under the doctrine of equivalents. The district court denied TRI's motion for JMOL.

Substantial evidence supports the jury's verdict. Mr. Olson testified that Octel's systems do not use a retrieval console and do not distinguish between played and unplayed messages, as is required by claim 1. Moreover, TRI's own expert, Mr. Prentice, admitted that where no effort is made to distinguish between played and unplayed messages for the purpose of automatic deletion, "such a system would not infringe claim 1 of the '647 patent."

IV. The '635 Patent

The '635 patent describes a message delivery system that includes a plurality of playback units, each of which stores a segment of an audio message. The segments are played in sequence and broadcast over multiple telephone lines. The district court granted Octel's motion for summary judgment that its systems do not infringe claims 1 and 7 of the '635 patent.

The district court's non-infringement ruling was based on its conclusion that claims 1 and 7 require that message segments be supplied simultaneously to a plurality of telephone lines, which Octel's system sends message segments to different lines at different times. On appeal, TRI argues that the district court erroneously added to the asserted claims the requirement that messages be transmitted simultaneously. TRI contends that the claims should be interpreted to cover systems in which an audio signal is supplied to different interface units at different times.

We discern no error in the district court's interpretation of the claims. Claims 1 and 7 require "a plurality of line interface units, each of which is coupled to a respective telephone line." Claim 1 requires "means . . . for supplying the audio signals of the activated playback units to the plurality of line interface units." Claim 7 further requires "means for . . . supplying the audio signals of the activated playback units to the interface units." The specification makes it clear that the invention contemplates that the same signal is supplied simultaneously to multiple telephone lines, and the disclosed structure for performing the recited function of the means-plus-function limitations operates in that manner. See Abstract ("in order to broadcast a message made up of a plurality of message segments to a number of line interface units"); Fig. 2a (showing audio lines from multiple announce units converging at audio analog mux 21 and fed to a single audio output line through amplifier 2); Figs. 2b and 3 (showing multiple audio lines to the interface units tied together); col. 1 at lines 40-42 ("in order simultaneously to broadcast the same message to each of the interface units"); col. 4 at lines 51-54 ("The output of this audio amplifier 2 is connected via line 2a to each of the line interface units 60 for broadcast to the respective telephone lines 50"); col. 7 at lines 50-54 ("The audio signal is generated by the amplifier 2 on line 2a and contains the audio message which is passed by the line interface units 60 to the respective telephone lines."); and col. 8 at lines 56-59 ("This announce unit

90 replays its recorded message segment, which is passed via the audio analog multiplexer 21 to the amplifier 2, and from the amplifier 2 to each of the line interface units 60.").

TRI's assertion that the claims should be interpreted in a manner that merely requires that "overlapping" message segments be sent to different telephone lines is not persuasive. Octel presented undisputed evidence that its systems combine a series of phrases into a prompt, then convert the prompt into an audio signal that is transmitted over a single telephone line to a single caller. Because Octel's systems do not transmit the same signal to more than one telephone line, the district court properly held that those systems do not infringe TRI's rights under the '635 patent.

V. The '255 Patent

The '255 patent, which issued from an application filed on December 29, 1977, describes a call distributor system that automatically answers telephone calls and records an initial message from each caller. The district court granted NTI's motion for summary judgment, holding claims 1-4 of the '255 patent invalid based on an offer to sell the invention more than one year before the filing date of the application.

The district court granted NTI's motion on the basis of the following evidence: (a) a signed letter dated October 29, 1974, that appeared to offer to sell the claimed invention to the Ann Arbor Transportation Company (AATA); (b) evidence that an officer of CVTC, a company associated with TRI, worked with a CVTC sales representative to prepare a response to a Request for Quotation received from AATA and that the author of the letter was "dealing with the [AATA]"; and (c) evidence that the invention of the '255 patent was reduced to practice before the date of the letter. TRI appeals the summary judgment ruling, arguing that there is no direct evidence that the letter was actually received by AATA and that the invention had never been embodied in physical form.

We reject each of TRI's challenges to the district court's ruling. As to TRI's contention that there was no direct evidence that the letter was received, the district court had before it proof that the letter was signed and contained a detailed offer, and that the author of the letter was "dealing with the [AATA]," indicating communication with the recipient. Moreover, the court properly concluded that statements from Theis and a CVTC officer to the effect that they did not recall sending the letter to AATA did not rebut the evidence that an offer was made. Nor is there any force to TRI's argument that the letter was not found in AATA's files, since there was evidence that the letter would have been discarded when AATA moved to new quarters in the 1980s.

TRI's argument that the invention was not "embodied in physical form" at the time of the alleged offer is directly contradicted by its own admission in a separate action and does not create a genuine issue of fact precluding summary judgment. Moreover, a reduction to practice is not a requirement for application of the on-sale bar. UMC Elecs. Co. v. United States, 816 F.2d 647, 656, 2 USPQ2d 1465, 1472 (Fed. Cir. 1987). Accordingly the district court's ruling on invalidity is affirmed.

VI. Motion for a New Trial

TRI argues that it is entitled to a new trial because the trial judge failed to instruct the jury on the meaning of disputed terms in the '436 and '647 patents and because the great weight of the evidence is contrary to the verdict.

Regarding the jury instructions, TRI insisted throughout the trial that the meaning of disputed claim terms was a question of fact that should be left to the jury. Having urged the district court to submit the issues of claim construction to the jury, TRI cannot now argue for a new trial on the ground that the district court did what TRI asked. Under the doctrine of "invited error," a party may not seek reversal based on an act that the party itself requested. See Weinar v. Rollform, Inc., 744 F.2d 797, 809, 223 USPQ 369, 376 (Fed. Cir. 1984).

As to TRI's assertion that the verdicts are against the great weight of the evidence, we have concluded that the verdicts are fully supported by the evidence. Consequently, we affirm the denial of the request for a new trial.

VII. Inequitable Conduct

NTI and Octel allege that TRI's patents are unenforceable due to inequitable conduct by Mr. Theis before the PTO over a period of several years. Following a bench trial on the issue, the district court carefully considered all of the alleged misconduct by Mr. Theis and concluded that NTI and Octel had failed to prove by clear and convincing evidence that Mr. Theis intended to deceive the PTO. As the district court noted, the facts present a close case. Nonetheless, we conclude that the court did not abuse its discretion in ruling against NTI and Octel on this issue.

The facts surrounding the prosecution of TRI's patents are set forth in detail in the district court's findings. The district court concluded that some of Mr. Theis's activities over a period of years raised questions about his candor before the PTO. The court, however, pointed to other actions by Mr. Theis that were inconsistent with an intent to deceive the PTO, such as his abandonment of allowed claims in one application, his requests for extensions in two instances to investigate a possible "on sale bar," his advice to the examiner that the outcome of his 1975 patent application (in which the claims were eventually held invalid) could be dispositive of his

1977 application, and his narrowing of certain claims in view of the shipment of devices.

On appeal, NTI and Octel argue that the district court improperly applied the materiality and intent elements of inequitable conduct to the circumstances surrounding each patent separately, instead of considering all the circumstances together. NTI also argues that the district court omitted from its final conclusions certain facts that were included in its tentative conclusions, including Mr. Theis's alleged awareness of the importance of disclosing his prior Con Mode system sales activity. Finally, NTI argues that the district court failed to conduct the required balancing of materiality and intent.

NTI and Octel have the burden of showing that the district court abused its discretion in holding that inequitable conduct was not proved by clear and convincing evidence. On the present record, we cannot say that the district court abused its discretion. We do not agree, as NTI and Octel urge, that the district court applied a "piecemeal" analysis to TRI's patents. To the contrary, the district court's findings of fact and application of the law to the facts were thorough and took into account Mr. Theis' entire course of conduct before the PTO. The district court likewise did not abuse its discretion by omitting some of its tentative findings in its final ruling. Tentative findings are just that – tentative – and are subject to revision or omission upon further consideration. In the end, the district court's ruling was based on its conclusion that Octel and NTI had failed to prove by clear and convincing evidence that Mr. Theis intended to deceive the patent examiner. That conclusion is highly factual and thus is largely immune from appellate review. Finding no error in the district court's legal or factual analysis, we affirm the court's ruling on inequitable conduct.

VIII. Cost Award

The district court found that Octel and NTI were the prevailing parties in the case and awarded costs against TRI totaling $385,737.79. TRI appeals the cost award on the basis that (a) the award is premature and fails to account for the fact that TRI partly prevailed; (b) certain portions of the costs are not recoverable; and (c) there is insufficient evidence to support the award.

As to point (a), TRI argues that because it prevailed on the issue of inequitable conduct, it was an abuse of discretion to award costs against it for that part of the lawsuit. Moreover, TRI notes that it has claims against NTI arising from two other TRI patents, which the district court severed from this case before trial. TRI argues that the prevailing party cannot be determined until after those claims are resolved.

Our disposition of the validity and infringement issues resolves any question about whether Octel and NTI are the prevailing parties. Octel and NTI have succeeded in invalidating the only asserted claims of the '436 patent, the '817 patent, and the '255 patent, thus entirely defeating TRI's claim for damages. TRI also failed to prove infringement with respect to the '647 and '635 patents. That Octel and NTI did not succeed in having all of the patents in suit declared unenforceable – an alternative ground of defense – does not lessen the extent to which they prevailed on the merits. See Manildra Milling Corp. v. Ogilvie Mills, Inc., 76 F.3d 1178, 1183, 37 USPQ2d 1701, 1711 (Fed. Cir. 1996) ("as a matter of law, a party who has a competitor's patent declared invalid meets the definition of 'prevailing party.'"). Moreover, the resolution of the severed action by TRI against NTI is a separate matter for purposes of the assessment of costs. A final judgment was issued in this case, and it is with respect to the judgment in this case that the prevailing party determination must be made.

The only remaining question is whether, under Ninth Circuit law, the district court abused its discretion in awarding costs. See Manildra, 76 F.3d at 1183, 37 USPQ2d at 1712. We hold that it did not. See, e.g., Cornwell Quality Tools Co. v. C.T.S. Co., 446 F.2d 825, 833 (9th Cir. 1971) (if neither party completely prevails, district court has broad discretion to apportion and tax costs); K-2 Ski Co. v. Head Ski Co., 506 F.2d 471, 182 USPQ 724 (9th Cir. 1974) (no abuse of discretion to award full costs to plaintiff who prevailed on only 2 of 12 asserted trade secret claims).

As to point (b), the only specific objection advanced by TRI is that Octel included costs for audio visual presentations. The Ninth Circuit allows the costs of visual aids to be awarded under 28 U.S.C. § 1920. See Maxwell v. Hapag-Lloyd Aktiengesellschaft Hamburg, 862 F.2d 767, 770 (9th Cir. 1988) ("exemplification and copies of papers" also covers illustrative materials); Little Oil Co. v. Atlantic Richfield Co., 852 F.2d 441, 448 (9th Cir. 1988).

Finally, as to the contention that copying expenses were unsubstantiated, TRI has failed to point out any specific deficiencies. Moreover, the district court reduced the amount originally requested by Octel and NTI in order to ensure that TRI would not have to pay more than was reasonable necessary for trial. The amount allowed in costs is a matter within the district court's broad discretion, and we find no abuse of that discretion in this case.

Each party shall bear its own costs for this appeal.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
(San Jose Division)

OCTEL COMMUNICATIONS CORPORATION,
a Delaware corporation; NORTHERN TELECOM INC.,
a Delaware corporation,

Plaintiffs,

vs.

THEIS RESEARCH, INC., an Illinois corporation,
and PETER F. THEIS, an individual,

Defendants.

AND RELATED CONSOLIDATED COUNTERCLAIMS

Case No.: C-92 20217 RMW (EAI)

FINAL JUDGMENT

Filed: Jan. 2, 1996

Richard W. Wieking
Clerk, U.S. District Court
Northern District of California
San Jose

In this declaratory judgment action, defendant Theis Research, Inc. ("TRI") claimed that plaintiffs Octel Communications Corporation ("Octel") and Northern Telecom Inc. ("NTI") both infringed U.S. Patent Nos. 4,539,436 (the "436 patent"), 4,692,817 ("the '817 patent"), 4,719,647 ("the '647 patent"), and 4,439,635 ("the '635 patent"). TRI further claimed that NTI (but not Octel) infringed two additional patents, U.S. Patent Nos. 4,150,255 ("the '255 patent") and 4,559,416 ("the '416 patent"). Both Octel and NTI denied infringement, and raised various defenses to the validity and enforceability of the patents.

Pursuant to certain rulings made at the December 16, 1993 pre-trial conference and to certain stipulations entered into by the parties, trial was set for three phases: a first trial to the court on the equitable defenses of patent unenforceability and laches[1]; a second jury trial on the issues of validity and infringement of the '436, '817 and '647 patents[2]; and a third seriatim jury trial (if necessary) on the issues of damages and willful infringement with respect to the '436, '817 and '647 patents. The first trial to the Court was conducted from January 31 through February 9, 1994. The second trial before a jury commenced on August 22, 1994 and the jury returned its verdict on October 5, 1994. A third trial was unnecessary in light of the jury's verdict in the second trial.

---

[1] Following the jury's verdict on the issues of validity and infringement, the parties stipulated that they did not need the Court's ruling on the laches defense at this time.

[2] Prior to the first trial, the court granted Octel's motion for summary judgment of non-infringement of the '635 patent, and NTI's motion for summary judgment of invalidity of the '255 patent. The parties stipulated, prior to the second trial, that TRI's claims against NTI with respect to the '635 and '416 patent would be severed and stayed for later trial.

Pursuant to Rule 54, F.R.Civ. P., the Court has determined that there is no just reason for any delay in entering judgment on the issues resolved by the jury and by the Court, and hereby directs the clerk to enter Final Judgment as set forth below.

I. The Enforceability Issues

1. The '436 patent is not unenforceable due to inequitable conduct.

2. The '817 patent is not unenforceable due to inequitable conduct.

3. The '647 patent is not unenforceable due to inequitable conduct.

4. The '255 patent is not unenforceable due to inequitable conduct.

5. United States Patent No. 4,328,396 is not unenforceable due to inequitable conduct.[3]

6. Defendant Peter F. Theis did not engage in a pattern of misconduct before the Patent Office sufficient to render all of the patents in suit unenforceable.

II. The Validity Issues

1. Claims 1-4 of the '255 patent are invalid because the claimed subject matter was offered for sale to Ann Arbor Transportation Authority more than one year prior to the filing date of the '255 patent application.

---

[3] The '396 patent is in the chain of patent applications leading to the issuance of the '436 and '817 patents.

2. Claim 1 of the '647 patent is invalid because it is anticipated by the prior art Con Mode 3020.

3. Claim 1 of the '647 patent is invalid because it is rendered obvious by the prior art.

4. Claim 1 of the '817 patent is invalid because it is anticipated by the prior art Con Mode I.

5. Claim 1 of the '817 patent is invalid because it is anticipated by the prior art U.S. Patent No. 3,300,586 ("the Shepard patent").

6. Claim 1 of the '817 patent is invalid because it is rendered obvious by the prior art.

7. Claim 1 of the '817 patent is not invalid for indefiniteness.

8. Claim 1 of the '817 patent is not invalid for failure to disclose the best mode.

9. Claim 1 of the '436 patent is invalid because it is rendered obvious by the prior art.

10. Claim 1 of the '436 patent is not anticipated by either the prior art Con Mode I or the prior art Shepard patent.

11. Claim 1 '436 patent is not invalid for indefiniteness.

12. Claim 1 of the '436 patent is not invalid for failure to disclose the best mode.

13. Claim 10 of the '436 patent is invalid because it is rendered obvious by the prior art.

14. Claim 10 of the '436 patent is not anticipated by either the prior art Con Mode 1 or the prior art Shepard patent.

15. Claim 10 of the '436 patent is not invalid for indefiniteness.

16. Claim 10 of the '436 patent is not invalid for failure to disclose the best mode.

II. The Infringement Issues

1. Octel's Sierra and Aspen systems do not infringe either claim 1 or 7 of the '635 patent, literally or under the doctrine of equivalents.

2. Octel's Sierra and Aspen systems do not infringe claim 1 of the '647 patent, literally or under the doctrine of equivalents.

3. Octel's Sierra and Aspen systems do not literally infringe claim 1 of the '817 patent.

4. The telephone answering and voicemail applications of Octel's Sierra and Aspen systems do not infringe claim 1 of the '817 patent under the doctrine of equivalents.

5. The Voice Forms application of Octel's Sierra and Aspen systems infringes claim 1 of the '817 patent under the doctrine of equivalents.

6. Octel's Sierra and Aspen systems do not literally infringe claim 1 of the '436 patent.

7. The telephone answering application of Octel's Sierra and Aspen systems does not infringe claim 1 of the '436 patent under the doctrine of equivalents.

8. The Voice Forms application of Octel's Sierra and Aspen systems infringes claim 1 of the '436 patent under the doctrine of equivalents.

9. Octel's Sierra and Aspen systems do not literally infringe claim 10 of the '436 patent.

10. The telephone answering and voicemail applications of Octel's Sierra and Aspen systems do not infringe claim 10 of the '436 patent under the doctrine of equivalents.

11. The Voice Forms application of Octel's Sierra and Aspen systems infringes claim 10 of the '436 patent under the doctrine of equivalents.

12. NTI's Meridian Mail, Startalk and AABS products do not infringe claim 1 of the '817 patent literally or under the doctrine of equivalents.

13. NTI's Meridian Mail, Startalk and AABS products do not infringe claim 1 of the '436 patent literally or under the doctrine of equivalents.

14. NTI's Meridian Mail, Startalk and AABS products do not infringe claim 10 of the '436 patent, literally or under the doctrine of equivalents.

15. NTI's Meridian Mail product does not infringe claim 1 of the '647 patent, literally or under the doctrine of equivalents.

As the prevailing parties in this action, Octel and Northern Telecom shall be allowed to recover their costs against TRI.

Dated: 12/29/95

/s/
Ronald M. Whyte
United States District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

OCTEL COMMUNICATIONS CORPORATION,
a Delaware corporation; NORTHERN TELECOM, INC.,
a Delaware corporation,

Plaintiffs,

v.

THEIS RESEARCH, INC., an Illinois corporation,
and PETER F. THEIS, an individual,

Defendants.

AND RELATED CONSOLIDATED COUNTERCLAIMS

NO. C-92-20217 RMW (EAI)
[C-93-20287 JW (EAI)]
[C-93-20288 RMW (PVT)]

ORDER ON DEFENDANTS' MOTION FOR JUDGMENT AS A MATTER OF LAW THAT CLAIMS 1 AND 10 OF THE '436 PATENT ARE VALID

Filed: Nov. 14, 1996

Richard W. Wieking
Clerk, U.S. District Court
Northern District of California
San Jose

Defendants Peter F. Theis and Theis Research, Inc. (collectively referred to below as "TRI") seek a judgment as a matter of law that claims 1 and 10 of the '436 patent are valid. Specifically, TRI argues that "[p]laintiffs did not present substantial evidence to support the legal conclusion that claims 1 and 10 were obvious from the prior art; the jury's verdict on this issue is wrong as a matter of law." Def.'s Memo, p.2. The court disagrees and hereby denies the motion.

TRI correctly notes that "obviousness" is a question of law. However, "obviousness is a legal determination that may be submitted to the jury with proper instruction." In Re Hayes Microcomputer Products Patent Lit., 982 F.2d 1527, 1539 (Fed. Cir. 1992). TRI did not object to the court's instructions on the "obviousness" question. The court's task in connection with this motion is to presume that the jury correctly resolved the factual disputes in favor of Octel and NTI and leave those findings undisturbed if they are supported by substantial evidence. Then, the court must examine the legal conclusion to see whether it is correct in light of the presumed jury findings. Jurgens v. McKasy, 927 F.2d 1552, 1557 (Fed. Cir. 1991).

The jury must have found that all elements of claims 1 and 10 of the '436 patent were not united in either the Shepard patent or in the Con Mode I system, as it found that neither anticipated the '436 patent. However, it did find the differences between the claimed inventions and the prior art were such that the inventions as a whole would have been obvious to a person of ordinary skill in the art. Although this ultimate conclusion is one that properly could have been left for the court, the court finds that it is correct based upon the jury's presumed factual findings.

The essential differences between the prior art Con Mode I and the '436 invention were, according to Theis, that the Con Mode I did not have a "speech detector" and the "interface means." Trial Tr. 836-837 (Theis). Even if that testimony is accepted as accurate,[1] the '436 invention would have been obvious to one skilled in the art. The problem with the Con Mode I was that it was not recognizing speech from other noise on the line. Trial Tr. 750-753 (Theis). The problem was solved by use of a "speech detector," a type of conventional voice actuation circuit that Theis said was known and accepted in the industry. Trial Tr. 753-57 (Theis). Further, the specification of the '436 patent identifies the "interface means" as "an RDM-ZR installed by the telephone company." '436 patent at 3:35-6. The RDM-ZR was a known prior art device, as Theis acknowledged in his affidavit to the patent office dated August 24, 1984.

> As of February 4, 1974, the RDMZR was a known interface coupler distributed by American Telephone & Telegraph Co., as evidenced by the attached portions of the document attached as Exhibit L dated June 1971. Because the RDMZR was a known prior art device in early 1974, I did not burden my original application with details of its known structure and operation.
>
> Pltfs' Trial Ex. At ¶ 13 (emphasis added).

---

[1] The record supports a conclusion that Con Mode I had the claimed "interface means." TRI argues in their motion for a new trial that the claimed "interface means" detects an incoming call, seizes the line, transmits the signals on the line to the system, determines when the caller has hung up and hangs up." Defs' New Trial Memo at p. 12. These are the same functions which Theis, in his February 3, 1978 affidavit to the patent office, says were performed by the Con Mode I. Trial Ex. 21, ¶ 7c. The jury presumably found that the "interface means" in the '436 inventions performed the identical function as, and was an equivalent structure to, the line control card in the Con Mode I.

The fact that the "speech detector" and RDM-ZR were known prior art devices does not mean that the inventions set out in claims 1 and 10 of the '436 patent were necessarily obvious. The teachings of two or more prior art references may be combined as a basis for finding obviousness only if there is some teaching or suggestion in the prior art supporting that combination. The combination of elements in the claims at issue were suggested by Con Mode I, given the objective of the Con Mode I, the experienced problem with it, and the knowledge of those skilled in the art of "speech detectors" and the RDM-ZR. All Theis did to correct them was to use a "speech detector" which he admits was a well known and accepted device in the industry and a better interface means. A person skilled in the art who was faced with the problem facing Theis would certainly have been led to the use of these existing prior art devices by knowledge of the Con Mode I and its deficient performance. The correction of the deficiencies involved no inventive talent.

For the reasons stated, TRI's motion for judgment as a matter of law is denied.

DATED: 11/12/96

/s/ Ronald M. Whyte
RONALD M. WHYTE
United States District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

OCTEL COMMUNICATIONS CORPORATION,
a Delaware corporation; NORTHERN TELECOM INC.,
a Delaware corporation,

Plaintiffs,

v.

THEIS RESEARCH, INC., an Illinois corporation,
and PETER F. THEIS, an individual,

Defendants.

AND RELATED CONSOLIDATED COUNTERCLAIMS

No.: C-92 20217 RMW (EAI)
[C-93-20287 JW (EAI)]
[C-93-20288 RMW (PVT)]

ORDER ON DEFENDANTS' MOTION FOR JUDGMENT AS A MATTER OF LAW ON VALIDITY OF CLAIM 1 OF THE '817 PATENT

Filed: Nov. 14, 1996

Richard W. Wieking
Clerk, U.S. District Court
Northern District of California
San Jose

Defendants Peter F. Theis and Theis Research, Inc. (collectively referred to below as "TRI") seek a judgment as a matter of law that Claim 1 of the '817 patent is valid. The court hereby denies the motion, although it does not find that the Shepard patent anticipates Claim 1.

The jury found that Claim 1 of the '817 patent is invalid because it is anticipated by the Shepard patent. The evidence of anticipation, including Exhibits 2740(N) and (O) and Dr. Larky's testimony at 2711 - 2722, does not fully support the conclusion that all of the elements of Claim 1 are found in the Shepard patent. The element labeled 1(b) on plaintiffs' Exhibit 2740(N) is not met because the '817 patent requires at least two caller responses to be recorded for playback.[1]

The element labeled 1(e) on Exhibit 2740(O) is also not literally covered by Shepard. See Order on Octel's Motin for Judgment as a Matter of Law on Non-Infringement of the '817 Patent.[2]

Since Shepard does not contain all the elements of the '817 patent, it does not anticipate Claim 1.

The jury also found that Claim 1 is invalid because it is anticipated by Con Mode I. The evidence supports the finding that Con Mode I contained all the elements of Claim 1, unless Claim 1 is interpreted to require a "speech detector" within the element describing the "pause detector." If TRI is given the benefit of that interpretation (which the court does not endorse) and "speech detector" is defined as it is for the '436 patent, Con Mode I is not anticipatory as it did not have a "speech detector." However, Con Mode I would clearly have made the '817 invention obvious to one skilled in the art as explained in the Order on Defendants' Motion for Judgment as a Matter of Law that Claims 1 and 10 of the '436 Patent Are Valid and given what the jury could reasonably have concluded was included in Con Mode I.

---

[1] TRI takes the position that Claim 1 reads on an apparatus that records only one answer. The court disagrees. However, if that construction of Claim 1 is accepted, then that element is met by Shepard.

[2] TRI argues that the language "the respondent's response . . . has a duration within a selected time interval" reads, under the doctrine of equivalents, on a device that determines that a response exceeds a certain length. If TRI is correct (and the court does not think it is), then that element is included in Shepard.

For the reasons stated, TRI's motion for judgment as a matter of law is denied.

Dated: 11/12/96

/s/ Ronald M. Whyte
RONALD M. WHYTE
United States District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

OCTEL COMMUNICATIONS CORPORATION,
a Delaware corporation; NORTHERN TELECOM INC.,
a Delaware corporation,

Plaintiffs,

v.

THEIS RESEARCH, INC., an Illinois corporation,
and PETER F. THEIS, an individual,

Defendants.

AND RELATED CONSOLIDATED COUNTERCLAIMS

No.: C-92 20217 RMW (EAI)
[C-93-20287 JW (EAI)]
[C-93-20288 RMW (PVT)]

ORDER ON DEFENDANTS' MOTION FOR JUDGMENT AS A MATTER OF LAW ON OCTEL'S INFRINGEMENT OF CLAIMS 1 AND 10 OF THE '436 PATENT

Filed: Nov. 14, 1996

Richard W. Wieking
Clerk, U.S. District Court
Northern District of California
San Jose

Defendants Peter F. Theis and Theis Research, Inc. (collectively referred to below as "TRI") seek a judgment as a matter of law that Octel infringes claims 1 and 10 of the '436 patent. The court hereby denies the motion.

TRI argues that if the term "speech detector" as used in claims 1 an 10 of the '436 patent is properly defined by the court, the claims read on Octel's systems in their telephone answering applications.[1] Octel responds by arguing that its systems do not contain "speech detectors" and do not meet the claim limitation that requires the ability to respond with a prerecorded message to two or more voice communications from the caller.

Analysis

1. Claims at Issue

Claim 1 of the '436 patent reads

> 1. Apparatus for carrying on a programmed telephone conversation with a respondent via a telephone line adapted to carry a voice communication of the respondent, the apparatus including **means having a plurality of prerecorded messages which are playable in sequence in response to a corresponding response from the respondent**, and further comprising:
>
> interface means for coupling said apparatus to the telephone line;

---

[1] The Octel systems in their telephone answering and Voice Forms applications were alleged to infringe claims 1 and 10 of the '436 patent. The Voice Mail application was not alleged to infringe. Since the jury found that the Voice Forms application infringed under the doctrine of equivalents, TRI apparently has chosen to only seek a judgment as a matter of law on the telephone answering applications.

a speech detector coupled to the interface means;

detecting means, coupled to said **speech detector**, for detecting a pause in said voice communication of the respondent;

means, responsive to said pause, for causing the sending of the next pre-recorded message;

means, coupled to said **speech detector**, for detecting a lack of response from the respondent to a pre-recorded message; and

means responsive to said lack of a response for also altering the course of said programmed telephone conversation.

(Emphasis added)

Claim 10 states

10. Apparatus for carrying on a programmed telephone conversation with a respondent via a telephone line adapted to carry a voice communication of the respondent, the apparatus being characterized by an incoming mode in which said voice communication from said respondent can be passed into said apparatus, and an outgoing mode **in which an audio program containing a plurality of pre-recorded messages playable in sequence can be passed to said respondent**, comprising

interface means for coupling said apparatus to the telephone line;

a speech detector coupled to the interface means to monitor the voice communication on said telephone line; means, coupled to the **speech detector**, for detecting a pause in said voice communication of a predetermined duration;

> **means responsive to said pause for substantially instantaneously switching said system to said outgoing mode to reproduce the next of said pre-recorded messages**; and
>
> **means responsive to the termination of each said pre-recorded messages for substantially instantaneously switching said system to said incoming mode.**
>
> (Emphasis added)

2. Construction of the Term "Speech Detector"

A review of the claims, specification and prosecution history of the '436 patent shows that the term "speech detector" as used in claim 1 is a specialized type of noise filter which is designed to respond preferentially to speech, as opposed to other noises, on a telephone line. A speech detector is distinguished from a noise detector which looks only for how much energy is present and whether it is over a particular threshold. The goal of a speech detector is to sense and respond to speech-like signals and not to be triggered by non-speech signals.

3. Substantial Evidence Supports the Conclusion that Octel's System Does Not Include a Speech Detector

Substantial evidence supports the conclusion that Octel's system did not include a "speech detector" as that term is used in the patent. Cohn testimony at 2316-18 and 2387; Olson testimony at 2404-06, 2415-19, 2421-25, 2427-33, 2440-58, 2488-91 and 2497-2512.

4. The Claims Require the Ability to Respond to More than One Voice Message from the Caller

Claim 1 of the '436 patent initially states that it is directed at an "[a]pparatus for carrying on a programmed telephone **~~conversation~~** . . . . ." '436 patent at 8:1-4 (emphasis added). It follows with a limitation requiring:

> means having a **plurality** of pre-recorded messages which are playable in sequence **in response to a corresponding response** from the respondent.

'436 patent at 8:4-7 (emphasis added). This language clearly requires multiple pre-recorded messages (a "plurality"), each of which is playable "in response to a corresponding" voice communication from the caller. Therefore, it logically follows that multiple voice communications from the caller from the caller are necessary in order for there to be a plurality of pre-recorded messages played in response.

Claim to is also directed to an "[a]pparatus for carrying on a programmed telephone conversation . . . ." '436 patent at 10:40-41. It, like claim 1, involves multiple pre-recorded messages to be played in sequence in response to each of a caller's voice communications. The invention consists of an apparatus having an outgoing mode for playing "a plurality of pre-recorded messages playable in sequence" to the caller. '436 patent at 10:46-47. The last element of the claim requires "means responsive to the termination of each of said pre-recorded messages for . . . switching . . . to said incoming mode." '436 patent at 10:62-64. The invention is characterized earlier in the claim as having "an incoming mode in which said voice communication from said respondent can be passed into said apparatus." '436 patent at 10:43-45. Therefore, the claim requires multiple pre-recorded messages playable in sequence. After each of these messages, the system must be capable of switching to an "incoming mode" in order to permit the caller's voice communications to be passed into the system. The invention necessarily involves the ability to handle multiple caller messages for its "programmed telephone conversation."

TRI also argues that "silence" or the use of touch-tones can be considered a response. However, in the context of the claims at issue, silence or the use of touch-tones cannot be considered a "response" or "voice communication" as those terms are used in the claims.

The evidence showed that Octel's systems in their telephone answering applications did not provide for prerecorded responses to two or more voice communications from a caller.

Conclusion and Order

Substantial evidence supports the jury's verdict of noninfringement. Therefore, TRI's motion for judgment as a matter of law is denied.

DATED: 11/12/96

/s/ Ronald M. Whyte
RONALD M. WHYTE
United States District Judge

United States Court of Appeals for the Federal Circuit

97-1176, -1178, -1179

OCTEL COMMUNICATIONS CORPORATION,

Plaintiff/Cross-Appellant,

and

NORTHERN TELECOM, INC.,

Plaintiff/Cross-Appellant,

and

PACTEL MERIDIAN SYSTEMS,
BOSTON TECHNOLOGY, INC.
and DIGITAL SOUND CORPORATION,

Plaintiffs,

v.

THEIS RESEARCH INC. and PETER F. THEIS,

Defendant-Appellants.

ORDER

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLANTS, THEIS RESEARCH, INC., and PETER F. THEIS, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate has already issued.

Circuit Judge CLEVENGER did not participate in the vote.

FOR THE COURT,
JAN HORBALY, CLERK

Dated: December 29, 1997 By /s/ Alex Van Veen
Alex Van Veen
Staff Law Clerk /s/ amt

cc: NED L. CONLEY
ROBERT NEUNER, RON SHULMAN
OCTEL COMM V. THEIS RESEARCH INC, 97-1167,-1178,
-1179 (DCT - 92-CV-20217)

Filed: Dec. 29, 1997
Jan Horbaly, Clerk

****
Note: Pursuant to Fed. Cir. R. 47.6, this order is not citeable as precedent. It is a public record.
****

Supreme Court, U.S.
FILED
MAY 29 1998
CLERK

(2)

No. 97-1773

In The

Supreme Court of the United States

October Term, 1997

◆

THEIS RESEARCH, INC.,

Petitioner,

v.

OCTEL COMMUNICATIONS CORP.
AND NORTHERN TELECOM, INC.,

Respondents.

◆

On Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

◆

RESPONDENT OCTEL'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

◆

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30 pp

QUESTIONS PRESENTED

1. Whether for certain types of prior art, the Court should carve out an exception to Section 282, Title 35 United States Code and repudiate the long-standing practice of submitting the question of patent validity to the jury, and instead, require the District Court to limit its consideration of validity to a de novo review of the ex parte administrative record adduced before the Patent Office by the applicant to determine whether the Patent Office abused its discretion or committed clear error in issuing the patent.

2. Whether for certain types of prior art, the Court should repudiate the long-standing practice of submitting the question of patent validity to the jury and reviewing the jury verdict on appeal based on the substantial evidence standard, and instead, require the Federal Circuit Court of Appeals to review the issue of validity de novo.

3. Whether the Federal Circuit Court of Appeals erred in affirming the District Court's de novo construction of the claim language.

4. Whether a device that was adjudicated – by the United States Court of Customs and Patent Appeals nearly two decades ago – to have been on-sale and in public use more than one year before the patent application was filed, is prior art under Sections 102 and 103, Title 35 United States Code.

STATEMENT PURSUANT TO RULE 29.6

Lucent Technologies, Inc. is the parent company of Respondent Octel Communications Corp.

Respondent Octel Communications Corp. has no nonwholly owned subsidiaries.

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TABLE OF CONVENTIONS

Octel	Respondent Octel Communications Corp.
NTI	Respondent Northern Telecom, Inc.
TRI	Petitioner Theis Research, Inc.
Theis	Peter F. Theis, Defendant-Appellant before the Court of Appeals for the Federal Circuit below
Petition	TRI's Petition for a Writ of Certiorari filed in this Court; reference to "Petition, App. A" or "Petition at A-___" refers to the November 6, 1997 opinion of the Federal Circuit below, or specified part thereof, as reproduced in Appendix A of the Petition.
'436 patent	TRI's U.S. Patent No. 4,539,436
'817 patent	TRI's U.S. Patent No. 4,692,817
'635 patent	TRI's U.S. Patent No. 4,439,635
'647 patent	TRI's U.S. Patent No. 4,719,647
Con Mode I	The Con Mode I system held, in *In re Theis*, 610 F.2d 786 (C.C.P.A. 1979), to be in public use and on sale pursuant to 35 U.S.C. § 102(b).
Shepard	U.S. Patent No. 3,300,586
A___	Indicated page of the Joint Appendix of Record before the Court of Appeals for the Federal Circuit below

INTRODUCTION

This is a patent case in which the decision below involves no split among the Circuits, no conflict with relevant decisions of this Court, and no unresolved questions of federal law. Moreover, the questions presented are all raised for the first time by the Petition: *none* was presented to, or addressed below by, the District Court or the Court of Appeals.

Petitioner (TRI) lost a lengthy trial that was heavily dependent on the voluminous factual testimony presented to the jury – a jury which TRI requested. At bottom, TRI's petition is nothing more than a freshly-minted variant of TRI's oft-repeated (and equally oft-rejected) disagreement with the jury's verdict. Such a fact-specific quarrel with the jury's verdict and with the carefully reasoned decisions of the District Court and the Court of Appeals does not present any occasion for this Court's review. Certiorari should be denied.

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COUNTERSTATEMENT OF THE CASE

Respondent Octel, located in Milpitas, California, is a leading manufacturer of voice processing systems that provide telephone answering and voice mail capabilities (A14759, A14763, A14766). Respondent NTI is a leading manufacturer of all kinds of telephony equipment, including voice processing systems similar to those made and sold by Octel.

TRI neither makes nor sells any products. According to its President, Peter F. Theis, TRI's business "is not to employ people. It's to protect properties, properties being Theis patents" (A32014). TRI holds an exclusive license to the two patents at issue on this Petition: the '436 and '817 patents (A14377).

I. The Course Of The Proceedings Below

TRI precipitated this case by sending numerous threatening letters to Octel and its customers broadly alleging that the use of voice processing equipment made and sold by Octel required a license under an unspecified number of Theis patents in the telecommunications field (A32006-09, A32020-24). As a result of the threats and accusations contained in these letters, Octel filed suit in the Northern District of California against TRI seeking a declaratory judgment that three TRI patents were invalid and not infringed by Octel's equipment (A189-95).

TRI responded by expanding the action to include a seven count counterclaim against Octel and one of its subsidiaries and to assert four more patents (A226-42). Several of the patents in TRI's counterclaim were asserted without any factual basis. That is why less than five months later, TRI dismissed with prejudice three of the seven counterclaim counts (A370-71). The case against Octel proceeded on four patents: the '436 and '817 at issue on this Petition, and the '635 and '647 patents.[1]

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[1] NTI then filed its own declaratory judgment action regarding the same four patents asserted against Octel (A383-89). TRI filed a counterclaim against NTI which added two additional patents (A1473-87). NTI's action was then consolidated with the Octel action (A1729-31).

On October 5, 1994, after a six week trial, the jury found, *inter alia*, that (i) both of the asserted claims of the '436 patent were invalid for obviousness in light of the prior art (35 U.S.C. § 103), and (ii) the only asserted claim of the '817 patent was invalid because it was both anticipated, and rendered obvious, by the prior art (35 U.S.C. §§ 102(b), 103) (A51-60). The jury's findings were upheld by the District Court on post-trial motions, Petition, Apps. C-E, and by the Court of Appeals in its lengthy and detailed opinion, *id.*, App. A.[2]

II. The Evidence Upon Which The Jury Based Its Verdict That The '436 Patent Is Invalid

A. The '436 Patent

The '436 patent is directed to an apparatus for carrying on a programmed conversation over a telephone line with a caller. The patent describes a programmed conversation as follows. The apparatus answers the telephone and plays out a first message such as "[m]ay we help you." The caller then responds "with an answer such as 'I would like to place an order' " which is recorded by the apparatus. The apparatus then plays the next message asking, for example, the caller to state his or her name. After the apparatus records the caller's response, it plays another message, such as "[w]hat is your charge account number." This sequence of "message-response-message-response" continues until the programmed conversation is completed (A15045).

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[2] Octel also prevailed on the other two patents not at issue on this Petition. The District Court granted Octel's motion for summary judgment of non-infringement of the '635 patent (A30-34), and the jury found that Octel did not infringe the '647 patent (A98). The Court of Appeals affirmed both of these decisions. Petition at A-19 to A-21.

To conduct this programmed telephone conversation, the apparatus must be able to answer the telephone call and to hang up when the call is completed (A15044). In addition, the apparatus must be able to determine when the caller is speaking so that the response can be recorded, and to determine when the caller has completed his or her response so the next message can be played (*Id.*). These functions are performed, respectively, by two elements in the asserted claims: the "interface means" (A15046-47), and the "speech detector" (*Id.*).

B. The Prior Art To The '436 Patent

Octel and NTI relied upon two items of prior art with respect to the '436 patent. These items were the Con Mode I machine and the Shepard patent.

Con Mode I: During prosecution of the great- grandparent application for the '436 patent (the "'930 application" filed on August 15, 1975), the Examiner rejected the claims under 35 U.S.C. § 102(b) because the subject matter they described had been placed on sale, and had been in public use, by Mr. Theis more than one year before he filed his original application on February 4, 1974 (A16734-38). The Examiner's decision was upheld by the Patent Office Board of Appeals (A16857-63), and the rejection was affirmed nearly twenty years ago by the Federal Circuit's predecessor in *In re Theis*, 610 F.2d 786 (C.C.P.A. 1979).

At trial, the product which Mr. Theis publicly used and placed on sale prior to February 4, 1973 was referred to as Con Mode I (A14360).[3] Con Mode I includes, but is not limited to, the subject matter of the claims of the '930 application. Petition at A-14. There was ample evidence of additional structures and features which Con Mode I included. This evidence comes from the trial testimony of Mr. Theis (*e.g.*, A14360-62, A14364), affidavits he submitted during prosecution of the '930 application (*e.g.*, A16753-63), and contemporaneous documents (*e.g.*, A16764-80). *See also* Petition at A-14.

Shepard: The Shepard patent (A17331-45), entitled "Conversation Machine," issued in 1967, seven years before Mr. Theis filed his original application for the '436 patent.

C. The Invalidity Of The Claims In Light Of Con Mode I And Shepard

The principal dispute about the validity of the '436 patent claims turned on whether the prior art included, or rendered obvious, use of the claimed "speech detector" and "interface means." *See* Petition at A-4 to A-6.

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[3] TRI contends that, notwithstanding the C.C.P.A.'s determination that Con Mode I was in public use and on sale, it nevertheless is not prior art. Petition at 11 n.13. TRI never made this argument below. This is no surprise. TRI's argument flatly contradicts established law. *See Baker Oil Tools Inc. v. Geo Vann Inc.*, 828 F.2d 1558, 1563 (Fed. Cir. 1987) ("If a device was in public use or on sale [under section 102(b)] before the critical date, then that device becomes a reference under section 103 against the claimed invention."). Moreover, TRI did not object to having the jury instructed that the prior art includes the Con Mode I (A14982).

Speech Detector:[4] The evidence demonstrated that Con Mode I included a "speech detector." *First*, Mr. Theis swore in his February 3, 1978 Affidavit submitted during prosecution of the '930 application that Con Mode I contained "[a] voice recognition circuit to identify when a caller is talking" (A16756). A speech detector, by definition, "identifies when a caller is talking." *Second*, TRI's expert, Mr. Prentice, admitted that the Con Mode I "voice recognition circuit" was intended to detect speech (A14514-15). *Third*, TRI's other expert, Dr. Gibson, repeatedly admitted on cross-examination that when Mr. Theis decided to use a speech detector in 1973, this was *"a natural thing to do based upon what people had been doing long before 1973"* (A14932). *See also* Petition at A-5.

The evidence also demonstrated that Shepard discloses a "speech detector." Octel and NTI's expert explained the reasons why Shepard has a "speech detector" (A14862-63, A32126, A32130). And, TRI's expert, Dr. Gibson, likewise conceded that (i) Shepard detects multisyllabic speech responses (A14935), and (ii) Shepard detects the words "yes" and "no" (*Id.*), both of which are forms of speech (*Id.*). Shepard thus detects speech. *See also* Petition at A-5.

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[4] There was no debate about what a "speech detector" means because Mr. Theis explicitly defined the term during prosecution of the application that issued as the '436 patent (A15118, A15122).

Interface Means: There was no debate among the parties about what the "interface means" refers to. As TRI pointed out to both courts below, an "interface means" is a device "which can detect an incoming call, seize the line, transmit the signals on the line to the system, determine when the caller has hung up and hang up" (Appellate Br. for Defs.-Appellants TRI and Theis at 29). The evidence established that Con Mode I performed those very same functions. That evidence consisted of Mr. Theis's sworn affidavit to the Patent Office submitted during prosecution of the '930 application (A16755). The evidence likewise established that Shepard included the claimed "interface means" (A14862-63, A32126, A32130). *See also* Petition at A-6.

Even if Con Mode I and Shepard did not have precisely the same "speech detector" and "interface means" as called for by the claim elements, the evidence demonstrated that use of those elements would have been obvious in light of Con Mode I and Shepard. In particular, the only alleged differences between the asserted claims of the '436 patent and Con Mode I was the supposed absence from Con Mode I of a speech detector and an interface means (A14383). But Mr. Theis designed the Con Mode I to include those very elements. As Mr. Theis admitted in his 1978 Affidavit, Con Mode I had a "voice recognition circuit to identify when a caller is talking" (A16756), and also had a "line control card" to perform all of the functions which TRI concedes are performed by the claimed "interface means" (A16755). Thus, the need for these elements was known in the prior art (A14514-15 (speech detector), A14388-89 (interface means)). The only problem with the Con Mode I was that the particular "voice recognition circuit" and "line control card" Mr. Theis initially selected did not perform their intended functions as well as he would have liked. And, as Mr. Theis testified, all he did to correct these alleged imperfections was "to look to see what was available in the marketplace" (A14361). And, what Mr. Theis found was a *better* speech detector (*i.e.,* what his expert Dr. Gibson said was *"a natural way to implement a speech detector in 1973"* (A14932)), and a *better* interface means (*i.e.,* an RDM-ZR which Mr. Theis admitted was a "known prior art device" (A15577)). As this Court long-ago noted in *Sinclair & Carroll Co. v. Interchemical Corp.,* 325 U.S. 327, 335 (1945):

> reading a list and selecting a known [element] to meet known requirements is no more ingenious than selecting the last piece to put into the last opening in a jig-saw puzzle. It is not invention.

These facts, as well as the other evidence before the jury, collectively constituted substantial evidence of invalidity. *See also* Petition at A-7.

III. The Evidence Upon Which The Jury Based Its Verdict That The '817 Patent Is Invalid

A. The '817 Patent

The '817 patent issued from an application that was filed as a continuation of that which issued as the '436 patent. Like the '436, the '817 patent also is directed to an apparatus for carrying on a programmed conversation. However, unlike the claims of the '436 patent, claim 1 of the '817 (the only claim asserted) is not restricted to *telephone* applications (A15501). *See also* Petition at A-13.

B. The Prior Art To The '817 Patent

As they did with the '436 patent, Octel and NTI relied on Con Mode I and Shepard as the two items of prior art with respect to the '817 patent. Octel will not repeat here the discussion of those two items set forth, *supra*. However, it is important to recall that in *In re Theis*, the C.C.P.A. held that Con Mode I anticipated (and thus rendered invalid) all of the claims in the '930 application. None of the claims in the '930 application was restricted to telephone applications. *In re Theis*, 610 F.2d at 788. The same is true of claim 1 of the '817 patent. *See* Petition at A-13.

C. The Invalidity Of Claim 1 In Light Of Con Mode I And Shepard

Through the testimony of their expert, Octel and NTI established that the elements of claim 1 of the '817 patent were fully met by Con Mode I. This was done by comparing claim 1 of the '817 patent with claim 17 in the '930 application (which was held to be anticipated by Con Mode I in *In re Theis*) (A14866-67).

More specifically, Figure 2 of the '817 patent and of the '930 application are identical (A32124, A32125). By color-coding the elements of '817 claim 1 and the elements of claim 17 of the '930 application with the corresponding structures depicted in Figure 2, Octel and NTI graphically demonstrated to the jury that both claims covered exactly the same structures. Thus claim 1 of the '817 was anticipated by Con Mode I for precisely the same reason that claim 17 of the '930 application was held to be anticipated by Con Mode I in *In re Theis,* as the District Court and the Court of Appeals both confirmed. Petition at D-2 & A-13 to A-14.

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THE WRIT SHOULD BE DENIED

I. Review Should Be Denied Because None Of The Reasons For Seeking The Writ Was Raised Below Before The Court Of Appeals

Having lost its patent infringement suit on a heavily fact-laden record, TRI now seeks to overturn the findings of invalidity of its patents on a set of wholly new grounds not raised before the Court of Appeals (or the District Court) below. Under such circumstances, seeking review by way of certiorari is manifestly inappropriate. *See Sisson v. Ruby,* 497 U.S. 358, 359-60 n.1 (1990); *Delta Air Lines, Inc. v. August,* 450 U.S. 346, 362 (1981); *Ramsey v. United States Mine Workers of Am.,* 401 U.S. 302, 312 (1971); *Neely v. Martin K. Eby Constr. Co.,* 386 U.S. 317, 330 (1967); *Lawn v. United States,* 355 U.S. 339, 362-63 n.16 (1958). This Court has repeatedly emphasized that "[w]here issues are neither raised before nor considered by the Court of Appeals, this Court will not ordinarily consider them." *Adickes v. S.H. Kress & Co.,* 398 U.S. 144, 147 n.2 (1970). TRI presents no reason for this Court to deviate from its normal practice of declining to consider issues not raised below.

The First Two Questions: The first two questions presented by the Petition address whether determinations of invalidity on certain narrowly prescribed grounds may properly be made by a jury, and what standard of review should be applied. Petition at ii-iii. TRI did not raise these issues in its appellate brief, even though the Federal Circuit's standards for review of jury verdicts of invalidity are well-established. *See, e.g., United States Surgical Corp. v. Ethicon, Inc.*, 103 F.3d 1554, 1559 (Fed. Cir. 1997). Therefore, the Federal Circuit – which is vested with exclusive appellate jurisdiction over patent matters – was not even given the opportunity to pass on the questions TRI now presents to this Court.

Moreover, the present record is uniquely inappropriate for this Court to determine, in the first instance, whether it is proper to submit the issue of invalidity to the jury under the circumstances presented here. TRI fails to inform this Court of a central fact that explains why it did not raise the first two questions before the Court of Appeals: *it was Petitioner TRI – not Octel – who demanded a jury trial* (A229, A1487). Having obtained an adverse verdict from the jury it demanded, TRI now reverses itself and demands a new trial on the grounds that the jury should not have been permitted to decide this case. TRI did not raise this issue below because it is plain that Federal Circuit precedent does not countenance such a stratagem. *Weinar v. Rollform, Inc.*, 744 F.2d 797, 809 (Fed. Cir. 1984). Neither should this Court.

The Third Question: The third question presented by the Petition addresses the issue of de novo review of claim construction. This, too, was not raised before the Court of Appeals.

It was not TRI's position in the District Court that claim construction was a matter for the court, subject to de novo review. To the contrary, it was Octel and NTI that requested the District Court to construe the disputed language in the claims, as a matter of law, and to instruct the jury as to the proper construction before deliberations began (A9959-60); but TRI vigorously opposed that effort and successfully urged that the meaning of the disputed claims be submitted for decision by the jury.[5] *See* Petition at A-22. Nevertheless, consistent with *Markman*, 52 F.3d at 981, the District Court went on to construe the disputed claim language when it ruled on TRI's post-trial motions.[6] The Federal Circuit likewise reviewed the construction of the claims as a matter of law. *See* Petition at A- 6, A-8 & A-9. Because the decision below was wholly consistent with *Markman*, there was no need to review the already-settled principle that claim construction is a matter of law subject to de novo review. As with questions one and two, TRI never presented to the Federal Circuit, and the Federal Circuit never passed upon, the third question which TRI asks this Court to review in the first instance.

The Fourth Question: The final question presented by the Petition is whether Con Mode I was properly considered as prior art in connection with determining the validity of the '436 and '817 patents. This issue appears nowhere in the Federal Circuit's opinion below because it was not raised on appeal. *See* Petition, App. A.

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[5] The case was submitted to the jury before the Federal Circuit issued its decision in *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370 (1996), holding that claim construction is a matter of law for the Court.

[6] The post-trial motions were decided after the Federal Circuit issued its decision in *Markman*, 52 F.3d 967.

Nor was the issue raised before the District Court. Once again, therefore, the issue should not be considered by this Court in the first instance.

Nevertheless, in an effort to recast its claims as worthy of consideration, TRI seeks to tie this case to *Pfaff v. Wells Elecs., Inc.,* 124 F.3d 1429 (Fed. Cir. 1997), *cert. granted,* 118 S. Ct. 1183 (1998), regarding "[t]he Federal Circuit's current application of the one-year 'on sale' trigger." This effort is entirely misplaced. The Federal Circuit *rendered no opinion in this case as to what conditions trigger the on sale bar with respect to Con Mode I* – nor did it have to, because the issue had been decided nearly twenty years ago in *In re Theis*. TRI was therefore collaterally estopped from raising the issue. Even if TRI was not collaterally estopped, this issue was waived by TRI's failure to bring it to the District Court's attention. *Weinar,* 744 F.2d at 804; *Allen Organ Co. v. Kimball Int'l, Inc.,* 839 F.2d 1556, 1561 (Fed. Cir. 1988). And, TRI again ignored the issue on appeal by failing to raise it in appellate briefs. *Amhil Enter. Ltd. v. Wawa, Inc.,* 81 F.3d 1554, 1563-64 (Fed. Cir. 1996). Accordingly, this Court should deny review. *Adickes v. S.H. Kress & Co.,* 398 U.S. 144, 147 n.2 (1970).

II. The First And Second Questions Do Not Present Any Issue Worthy Of Review

Apart from TRI's failure to raise the first and second questions below, there are several additional reasons why those questions should not be reviewed by this Court:

First, by its first and second questions, TRI seeks to abrogate the plain language of Section 282 of the patent statute, Title 35 United States Code. Section 282 states that invalidity of a patent on "any ground" set forth in part II of the statute "shall be" a defense to an action for infringement:

> The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded: . . .
>
> (2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability. . . .

An alleged infringer thus has the statutorily created right to challenge the validity of a patent on any ground specified in the statute.

By seeking an affirmative answer to the first two questions presented, TRI is attempting to deprive an alleged infringer of this right by carving out an exception with respect to invalidity challenges that are based on prior art that was presented to the Patent Examiner during prosecution of the application that issued as the patent in suit. Indeed, by TRI's "logic," under such circumstances, not only should invalidity *not* be tried by a jury, it should *not* be tried at all. Instead, TRI asserts that the alleged infringer's invalidity challenge should be limited to a de novo review by the District Court and the Court of Appeals of the administrative record which the applicant adduced during ex parte prosecution of his patent application, to determine whether on that ex parte record, the Patent Office committed clear error, or abused its discretion, in issuing the patent.

Although TRI's suggestion is bold, it is completely without merit. Where, as here, the statutory language is plain on its face, the judiciary should not lightly disregard its scope. *United States v. Gonzales,* 117 S. Ct. 1032, 1035 (1997). Section 282 applies to *any ground* of invalidity specified in part II of the patent statute. Part II does not create "special" rules for "special" classes of prior art. And, the patent statute does not dispense with jury trials of invalidity issues.

Second, an affirmative answer to the first two questions presented by TRI would dismantle the centuries-long practice of submitting all questions of patent validity to the jury for determination. As this Court observed in *United States v. Esnault-Pelterie,* 299 U.S. 201, 205 (1936):

> Validity and infringement are ultimate facts on which depends the question of liability. In actions at law they are to be decided by the jury.

Obviousness, in particular, is properly decided by the jury, as this Court has held:

> The question whether an improvement requires mere mechanical skill or the exercise of the faculty of invention, is one of fact; and in an action at law for infringement is to be left to the determination of the jury.

Thomson Spot Welder Co. v. Ford Motor Co., 265 U.S. 445, 446 (1924); *see also United Gas Public Serv. Co v. Texas,* 303 U.S. 123, 140 (1938); *Adams v. Bellaire Stamping Co.,* 141 U.S. 539, 541-42 (1891); *Keyes v. Grant,* 118 U.S. 25, 36-37 (1886); *Tucker v. Spalding,* 80 U.S. (13 Wall.) 453, 456 (1871); *Bischoff v. Wethered,* 76 U.S. (9 Wall.) 812, 814 (1869); *Turrill v. Michigan S. & N. Indiana R.R. Co.,* 68 U.S. (1 Wall.) 491, 512 (1863); *Winans v. New York & Erie R.R.*

Co., 62 U.S. (21 How.) 88, 100 (1858); *Battin v. Taggert*, 58 U.S. (17 How.) 74, 85 (1854).[7] This long-standing recognition of the role of juries in determining validity should not be lightly discarded. *Dimick v. Schiedt*, 293 U.S. 474, 486 (1935) ("Maintenance of the jury as a fact-finding body is of such importance and occupies so firm a place in our history and jurisprudence that any seeming curtailment of the right to a jury trial should be scrutinized with the utmost care.").

Third, contrary to TRI's assertion (Petition at 26), the fact that technical issues are raised in patent cases is no reason to summarily discard jury determinations of the facts underlying validity determinations. This Court does not dispense with juries simply because facts may be difficult to ascertain. *Slocum v. New York Life Ins. Co.*, 228 U.S. 364, 388 (1913); *see also In re Financial Sec. Litig.*, 609 F.2d 411, 431 (9th Cir. 1979) ("This argument unnecessarily and improperly demeans the intelligence of the citizens of this Nation. We do not accept such an assertion. Jurors, if properly instructed and treated with deserved respect, bring collective intelligence, wisdom, and dedication to their tasks, which is rarely equalled in other areas of public service."), *cert. denied sub nom., Gant v. Union Bank*, 446 U.S. 929 (1980). Of course, cases in all areas of the law may involve complex technical issues, but the solution has never been to oust juries wholesale. And conversely, many patented inventions are quite basic. *See, e.g., Panduit Corp. v. Dennison Mfg. Co.*, 810 F.2d 1561, 1572 (Fed. Cir. 1987) ("the patent system is not limited to sophisticated technologies"); *Newell Cos. v. Kenney Mfg. Co.*, 864 F.2d 757, 783 (Fed. Cir. 1988) (Newman, J., dissenting) ("That a claimed invention is simple, easy to understand, or a narrow technological advance, does not foreclose patentability."). There is no reason to blithely remove an entire category of cases from the traditional province of the jury, merely because some of them may involve complex technical issues.

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[7] The use of juries to determine validity issues dates back to at least the late eighteenth century, and is firmly rooted in English common law practice. *Morris v. Bramsom*, 1 Carpmael's Pat. Cas. 30, 34 (K.B. 1776); *Bramah v. Hardcastle*, 1 Carpmael's Pat. Cas. 168, 171-72 (K.B. 1789); *Arkwright v. Nightingale*, Davies Pat. Cas. 37, 60 (C.P. 1785); *Huddert v. Grinshaw*, Davies Pat. Cas. 265, 298 (K.B. 1803).

Fourth, TRI suggests that this Court's grant of certiorari in *American Airlines, Inc. v. Lockwood,* 515 U.S. 1121, *vacated,* 515 U.S. 1182 (1995), counsels in favor of reviewing the first two questions presented here. More specifically, TRI asserts that the question presented (but never decided) in *American Airlines* was "whether juries should decide the validity of patents," and that this case "presents another opportunity to resolve that recurring and important question." Petition at i. TRI is wrong from premise to conclusion.

The question presented by the petitioner in *American Airlines* was not "whether juries should decide the validity of patents." Rather, certiorari was granted for a much narrower question: "In an action in which the sole claim to be tried is a claim under the Declaratory Judgment Act to have a patent declared invalid, is there a right to a jury trial under the Seventh Amendment of the

United States Constitution?"[8] *American Airlines* was an action for declaratory judgment of invalidity after judgment of non-infringement was entered. *In re Lockwood,* 50 F.3d 966, 968-69 (Fed. Cir. 1995). Thus, the dispute concerned whether a jury was required where there was no assertion of patent infringement. The present case, in contrast, is not one where invalidity was considered in the abstract. TRI charged Octel and NTI with patent infringement (A231-41), and invalidity was asserted as a defense to that charge throughout the entire trial (A372-81). Under these circumstances, it is well established that a jury may properly decide both infringement and validity. *United States v. Esnault-Pelterie,* 299 U.S. 201, 205 (1936).

Fifth, an affirmative answer to the first two questions presented would be contrary to well-established principles of fairness. By the exception TRI seeks to carve out of Section 282 of the patent statute, TRI is attempting to apply offensively the findings that Mr. Theis obtained in secret, ex parte proceedings before the Patent Examiner. *See, e.g.,* 35 U.S.C. § 122. Neither Octel nor NTI were parties to the ex parte proceedings. Neither was given any opportunity to assert its invalidity arguments. Consequently, neither should be bound by the conclusions of the Patent Examiner which were based on that ex parte record. *Cf. Blonder-Tongue Labs, Inc. v. University of Illinois Found.*, 402 U.S. 313, 329 (1971); *Hansberry v. Lee*, 311 U.S. 32, 40 (1940) ("It is a principle of general application in Anglo-American jurisprudence that one is not bound by a judgment in personam in a litigation in which he is not designated as a party. . . . ").

---

[8] This case does not present that question at all, since TRI pursued its infringement claims through trial. Neither does this case "present[ ] another opportunity to resolve" the issue of jury determinations of validity. Indeed, the present record is particularly inappropriate for addressing the role of juries in validity determinations, because it was TRI, not Octel, who requested that the jury decide this issue.

III. The Third Question Does Not Present Any Issue Worthy Of Review

By its third question, TRI appears to be arguing that the Federal Circuit misapprehended its own decision in *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995), by failing to reconstrue certain claim language (unidentified in the Petition). TRI is wrong. TRI does not dispute that consistent with *Markman*, 52 F.3d at 981, the District Court construed the claim language, as a matter of law, when it denied TRI's post-trial motions. *See, e.g.*, Petition at E-4 to E-6 & C-3. TRI does not dispute that it appealed the District Court's construction of the '436 patent claims.[9] And, TRI cannot dispute that the Federal Circuit explicitly considered, and rejected, TRI's challenge of that construction. *See* Petition at A-6 ("interface means"), A-8 to A-9 ("speech detector") & A-9 (multiple voice response). Thus, what TRI appears to be complaining about is that the Federal Circuit did not agree with TRI's proposed interpretation of the '436 claims. Octel submits that such an issue is not worthy of review by this

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[9] TRI did not appeal any issue of claim construction with respect to the '817 patent (Appellate Br. for Defs.-Appellants TRI and Theis at 38-40).

Court. Sup. Ct. R. 10 (writ rarely granted to review purported "misapplication of a properly stated rule of law").

IV. The Fourth Question Does Not Present Any Issue Worthy Of Review

The final question presented by TRI – whether Con Mode I constitutes prior art for purposes of the on-sale bar of 35 U.S.C. § 102(b) – also is not worthy of review. The Federal Circuit's predecessor, the Court of Customs and Patent Appeals, issued a final decision nearly twenty years ago in which it held that Con Mode I was prior art because it was on-sale, and in public use, more than one year before the date on which the original application for the '436 and '817 patents was filed. *In re Theis,* 610 F.2d 786 (C.C.P.A. 1979). TRI's time to seek review of that decision before this Court expired 19 years ago. Sup. Ct. R. 13; 28 U.S.C. § 2101(c). TRI cannot attempt to collaterally do so now.

What remains, then, is the unremarkable but immutable principle that findings from a prior case may collaterally estop a party to that case from attempting to relitigate them at a future date. That is the situation here. The operation of collateral estoppel in patent cases such as this one is well-established and, thus, unworthy of certiorari. *See, e.g., Blonder-Tongue,* 402 U.S. 313.

◆

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,

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(3)

Supreme Court, U.S.
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No. 97-1773

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

THEIS RESEARCH, INC.

Petitioner

v.

OCTEL COMMUNICATIONS CORPORATION
AND NORTHERN TELECOM INC.

Respondents

**On Petition for Writ of Certiorari
to the United States Court of Appeals
for the Federal Circuit**

OPPOSITION OF RESPONDENT NORTHERN TELECOM INC. TO PETITION FOR WRIT OF CERTIORARI

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Respondent Northern Telecom Inc. ("NTI") respectfully Opposes the Petition for Writ of Certiorari of Petitioner Theis Research, Inc. ("TRI"). In opposing, NTI notes that TRI does not here appeal or otherwise challenge the holding below that none of NTI's products infringes either of the TRI patents that are the subject of TRI's Petition (i.e., the '436 and '817 patents).[1] NTI nonetheless opposes the grant of TRI's Petition, both as a declaratory judgment plaintiff involved in an actual and justiciable controversy regarding the validity of the '436 and '817 patents, and as an active participant and firm believer in the United States patent system.

COUNTERSTATEMENT OF THE CASE

In its Petition, TRI makes a number of misstatements and omissions that not only would bear on the issues that would be before the Court were certiorari to be granted, but when corrected render inappropriate the grant of certiorari.

In this regard, TRI purports to characterize itself and its founder Peter Theis as innovators in the telecommunications field, that inevitably "would end up having to fight the progeny of AT&T and their major manufacturers/suppliers to vindicate the rights that it holds under Theis' patents." (Petition, p. 4). TRI further represents to the Court that the Respondents "later built upon the underlying technology that Theis invented," and that this underlying technology was "marketed with success" by Theis. (*Id.*)

---

[1] The jury verdict of non-infringement of the '817 patent by NTI was not appealed to the Federal Circuit. The jury verdict of non-infringement of the '436 patent by NTI was appealed to and affirmed by the Federal Circuit (Appendix to the Petition, pages A-11 to A-12), but was not further challenged here.

In actual fact, the Theis primitive tape-recorder-based technology has never proved successful in any marketplace. Theis' enterprises have all either failed or become essentially dormant, not because of AT&T or any other competitor,[2] but because the industry passed them by without so much of a nod. Indeed, Theis' failures, including the "absolute disaster" (Petition, p. 5) of Theis' ConMode I, are not counterbalanced by anything in the record below.

With respect to Theis' disastrous ConMode I, TRI represents that "[n]one [of the ConMode I's sold to Montgomery Ward, J.C. Penney, Household Finance, and Market Facts] ... was placed in use before February 4, 1993" (one year before the initial patent application). (*Id.*). In actual fact, the history of ConMode I was litigated to an unhappy end by Theis in *In re Theis*, 610 F.2d 786 (C.C.P.A. 1979). There the Court of Appeals not only found that ConMode I was on sale prior to the critical date, but that they were actually delivered to Market Facts and used before the critical date. ("[P]rior to the critical date ... Market Facts and others were using the system;" 610 F.2d at 793-4). TRI's contrary representation to this Court is lamentable.

---

[2] TRI's president conceded that when it was decided to cease trying to sell Theis' ConMode products "competition was not a factor in the decision."

TRI also contends that ConMode I was "inoperative," and that ConMode I was not therefore a proper basis for a holding of patent invalidity with respect to the '436 and '817 patents. Here TRI not only misstates the facts, but would reinvent the historical record and the final disposition in *In re Theis*. There, in holding that Mr. Theis was not entitled to a patent on his ConMode I, the Court of Customs and Patent Appeals flatly rejected Theis' inoperativeness argument, i.e.:

> Appellant also relies on the theory that the bar of § 102(b) should not apply because, at the time prior to the critical date when Market Facts and others were using the systems, the systems were "inoperative." ...
>
> We find this argument wanting because appellant has failed to show that the *claimed invention* was inoperative. ...
>
> We find it difficult to imagine that appellant would demonstrate an inoperative system at a trade show and elsewhere in an effort to drum up business.

(610 at 794; emphasis the Court's). Now, almost twenty years after the decision in *In re Theis*, TRI would here treat it as a nullity and have this Court undertake a *de novo* review.

TRI's characterizations of the patent system as being flawed, in that "commercially valuable patents of independent inventors have become bait for litigation" (Petition, p. 17), must also be viewed in the light of the record below.

Bait indeed. As noted above, Theis' attempts to sell his ConMode machines were anything but successful. Petitioner TRI was formed not to market Theis' products, but to threaten the manufacturers and users of modern day telecommunication equipment with costly litigation unless they agreed to take licenses under Theis' patents. While purporting to offer licenses, TRI consistently refused to explain how the Theis' tape recorder-based patents were related at all to modern technology. TRI's strategy included threats against not only equipment suppliers such as NTI, but against their user customers, such as Bell Atlantic and Ameritech.

It was TRI's attacks on the customers of NTI and NTI's co-plaintiff in the district court, Octel Communications, Inc. ("Octel"), that proved to be its undoing. First, after TRI made outright threats against Octel's customer Ameritech (again without explaining the basis for its allegations), Octel brought a declaratory judgment action against TRI in the Northern District of California (the court that ultimately tried the present case). Octel sought a declaration of invalidity and non-infringement of three TRI patents. TRI answered and counterclaimed alleging infringement of seven patents (the original three plus four new ones). In March, 1993, less than five months after it filed its counterclaim, TRI, unable to pass even a red-face test as to the bases for many of its infringement allegations. stipulated to the dismissal, with prejudice, as to three of the seven counterclaimed patents.

At the same time, and in what can only be described as a litigation ploy to avoid what it saw as an unwelcome focus on the merits in the California action, TRI brought suit in the Eastern District of Virginia (home of the "rocket docket") against Bell Atlantic and its family companies. TRI now alleged that six of its patents (the three remaining patents in California, and three new ones) were infringed by the voice mail and automatic billing telephone services offered by Bell Atlantic. The underlying systems for these services were supplied, *inter alia*, by NTI and Octel, and both were called upon by Bell Atlantic to defend and, if necessary, indemnify. At this juncture, TRI purportedly was seeking damages based upon the revenues generated from the use of NTI's and Octel's products, and hence was asserting a damage base of literally billions of dollars. TRI demanded a jury trial hopeful that the risk of an accelerated David versus Goliath case before a jury would prove too risky for NTI and Octel.

This is the same TRI that now complains it was victimized by our jury system.

Since the California action was already well underway, NTI brought its own action in California, seeking a declaration of invalidity of non-infringement as to the six patents asserted by TRI against Bell Atlantic in Virginia. Again TRI counterclaimed, alleging infringement of all six patents against NTI as well as NTI's (and Octel's) Pacific Telesis Group customers.

The Virginia Court was not blind to TRI's litigation tactics, and Magistrate Judge (now Judge) Brinkema advised that she was prepared to issue a recommendation that the Virginia action be stayed pending resolution of the California actions. Faced with this reality, TRI stipulated to the stay; whereupon the Octel and NTI actions in California were consolidated for trial.

The consolidated California action did not go well for TRI. Of the six patents asserted, one (the '255 patent) was held invalid on summary judgment. Another (the '416 patent) was held invalid as to the apparatus claims (a renewed motion for summary judgment of invalidity of the method claims is presently before the district court). Still a third patent (the '635 patent) was held on summary judgment not to be infringed by Octel.

The three remaining patents, i.e., the '436 and '817 patents that are the subject of the present Petition, as well as the '647 patent, were then tried to the jury. The jury held that all three patents were invalid, and that only the '436 and '817 patents were infringed by a subproduct of Octel. The district court denied TRI's motions under Fed. R. Civ. P. 50 *except* that it vacated the jury's finding of invalidity as to the '647 patent. Final Judgment was entered on January 2, 1996.

TRI appealed most facets of the Final Judgment to the Court of Appeals for the Federal Circuit. This appeal included the invalidity and non-infringement findings as to the '436 patent, the invalidity (but not the non-infringement) finding as to the '817 patent, the summary judgment invalidity finding as to the '255 patent, and the non-infringement finding as to the '635 patent. The Court of Appeals affirmed the district court in all respects, including NTI's and Octel's cross-appeals.

In its Petition, TRI purports to raise only two of the issues decided below — the findings of invalidity of the '436 and '817 patents. As to these two patents, the lower court findings of non-infringement (as to all of NTI's products and most of Octel's products) are not challenged.

Again, It is this background that TRI's self-characterization as "bait for litigation" must be viewed and evaluated.

Also, far from attacking our jury system as it now does, in the district court (both in California and Virginia) TRI sought at every turn to place virtually every issue, whether it be of fact or law, before a jury. In the district court below, TRI demanded and received a jury. In the Virginia action brought by TRI against NTI's and Octel's Bell Atlantic customers, a jury was demanded by TRI.

TRI's arguments before this Court directed to the propriety of and weight to be accorded a jury determination of patent invalidity are particularly troublesome when compared with the record. Here NTI urges that "Octel and Northern Telecom relied heavily on the 'expert' opinions of Dr. Larky." (Petition, page 10). TRI then builds upon this reference to expert testimony with the following broadbrush characterization:

> As a practical matter, the "substantial evidence" standard of review is no standard at all in these cases. Parties will always be able to find hire gun "expert" witnesses to put on the stand. The infringer of a commercially valuable patent will always find it worth investing in "expert" witnesses. Inevitably, the "evidence" of the "expert's" opinion will always be found to satisfy ""that minimum quantum of evidence from which a jury might reasonably afford relief.'" ... This truth is demonstrated in the decision below by the Federal Circuit's liberal reliance on the opinions of Dr. Larky in affirming the obviousness verdicts as to the '436 and '817 patents.

(*Id.*, page 23).

In the district court, however, TRI played a strikingly different tune. Faced there with NTI's motion for summary judgment of invalidity of the '436 and '817 patents, TRI *successfully* argued as follows:

> This motion presents the opinion of Northern Telecom's expert, Dr. Larky, against the opinion of TRI's expert, Dr. Hoff, about what the Shepard reference teaches to one skilled in the art. This is a classic fact question which renders summary judgment wholly inappropriate. Northern Telecom's motion should be denied. *The jury must be permitted to determine which expert it believes.*

(TRI Opposition to NTI's Motion, page 1; emphasis added). Not only did the jury clearly believe Dr. Larky, but a review of the detailed discussions of the prior art by the district court (in denying TRI's motions for JMOL) and the Court of Appeals (in affirming the holding of invalidity) explained why Dr. Larky *was right*. (*See*, e.g. Appendix to TRI's Petition, pages A-3 to A-7; A-12 to A-14; C-1 to C-4; D-1 to D-3).[3]

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[3] The detailed discussions of the prior art by both of the courts below also bears directly upon TRI's repeated contention that "all of the prior art was before the Patent and Trademark Office." The PTO (continued...)

Even when it came to claim construction, since held by this Court in *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 116 S.Ct. 1384 (1996), to be an issue of law for the sole determination by the court, TRI consistently and vigorously urged that the jury, not the court, should be the final arbiter as to disputed claim terms. As expressly noted by the District Court:

> TRI argues that in light of *Markman v. Westview*, 116 S.Ct. 1384 (1996), the court is required to resolve disputes concerning the construction of claim terms and thus must now construe certain terms which were submitted to the jury for interpretation. *Markman* does make clear that claim interpretation is an issue for the court. However, TRI waived any claim of error based upon the submission to the jury of disputes pertaining to the meaning of claim terms. It argued throughout the case that the construction of certain terms involved questions of fact and had to be submitted to the jury. It did not object to the court's

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[7](...continued)
Examiner simply never asserted the prior art in the manner explained by the courts below, and as it was presumably understood and applied by the jury. (*Id.*)

> instruction number 14 which gave to the jury the task of interpreting certain terms on the ground that interpretation was the province of the court. Failure to specifically object waives an objection. Fed. R. Civ. P. 51, *Hammer v. Gross*, 932 F.2d 842, 847 (9th Cir. 1991), *cert. denied*, 502 U.S. 980, 112 S.Ct. 582 (1991). Therefore, the court's task in this post trial motion is to review the issue of claim construction *de novo* and then review the jury's verdict to determine whether there is substantial evidence to support the verdict using the correct claim construction.[4]

(November 14, 1996, Order on TRI's Motion for a New Trial, page 2).

Simply put, TRI can hardly be characterized as an unwitting "bait" placed at the mercy of a capricious jury system. Rather, it was TRI that cast the bait, and it is TRI that must now live with what little it managed to reel in.

ARGUMENT

As it is required to do under Supreme Court Rule 14, TRI's Petition purports set forth at the beginning four "questions presented," for review. Unfortunately, the Petition itself digresses into multi-faceted musings of what TRI perceives to be weaknesses in our jury system, culminating in the following invitation to this Court:

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[4] Thus TRI's waiver notwithstanding, the district court did construe the claims pursuant to *Markman*. *See also infra*. pp. 19-20, regarding TRI's failure to explain why this construction was wrong.

> Either way, the issues are fundamental—
>
> - the judiciary vis-a-vis the Patent and Trademark Office
> - the Federal Circuit vis-a-vis the trial courts
> - judges vis-a-vis juries
>
> —and should be resolved by this Court.

(Petition, page 18).

In opposing TRI's Petition, NTI will not undertake to respond to TRI's hypothetical and philosophical queries. Rather, NTI will limit its opposition by briefly pointing out that the four issues purportedly presented are not in fact presented by this case, and hence do not merit review by this Court.

1. **TRI's Question One:**

> **Where all of the prior art was before the Patent and Trademark Office, should a jury be invited and empowered to disregard the Office's determinations, substituting its own opinions of obviousness and anticipation (and those of an infringing party's "expert") for the Office's determinations? Or should the trial court have**

sustained the Office's determinations absent clear error or an abuse of discretion?[5]

This question misstates the law and the facts below. Far from being "invited and empowered to disregard the Office's determinations" and "substituting its own opinions of obviousness and anticipation," the jury in the district court was instructed, with TRI's concurrence, to adhere to longstanding and heretofore unchallenged precedent. As held by the district court:

> TRI correctly notes that "obviousness" is a question of law. However, "obviousness is a legal determination that may be submitted to the jury with proper instruction. *In re Hayes Microcomputer Products Patent Lit.*, 982 F.2d 1527, 1539 (Fed. Cir. 1992), *TRI did not*

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[5] As noted, *supra* page 9, "all of the prior art" was not considered and applied by the PTO Examiner in the same manner as in the courts below. Indeed, TRI would have NTI and Octel effectively bound by the findings made by the Examiner in then-secret, *ex parte* proceedings between Theis and the PTO. This plainly would deprive NTI of a full and fair trial on all of its defenses of invalidity. *See* 35 U.S.C. § 282 ("The following shall be defenses in any action invoking the validity or infringement of a patent ... (2) Invalidity ... on any ground specified ... [*inter alia* in 35 U.S.C. § 102 or § 103]); *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 329 (1971) ("Some litigants — those who have never appeared in a prior action — may not be collaterally estopped ... [t]hey have never had a chance to present their evidence and arguments on the claims").

> *object to the court's instructions on the "obviousness" question.*

(Nov. 14, 1996 Order on Defendants' Motion for Judgment as a Matter of Law that Claims 1 and 10 of the '436 Patent are Valid. Emphasis added.)

The instructions submitted to the jury, and not objected to by TRI, clearly informed the jury that it was not, as asserted by TRI, "empowered to disregard the Patent and Trademark Office's determinations" to grant Theis' patents. The instructions to the jury included the following:

> It is your duty to find the facts from all the evidence in the case. To those facts you will apply the law as I give it to you. You must follow the law as I give it to you whether you agree with it or not.
>
> * * *
>
> Because patents are presumed to be valid, Octel and Northern Telecom have the burden of proving invalidity by clear and convincing evidence. ... if Octel and Northern Telecom do not meet their burden of proving invalidity, then you must find that the claim is valid...
>
> * * *
>
> All patents issued by the Patent and Trademark Office are presumed to be valid. Therefore, as I explained before, one who

> challenges a patent claim's validity has the burden of proving invalidity by clear and convincing evidence.
>
> * * *
>
> Octel and Northern Telecom claim that all of the asserted claims are invalid because they were obvious. TRI and Mr. Theis deny that those claims were obvious. Octel and Northern Telecom must prove obviousness by clear and convincing evidence.

Also as noted *supra.*, TRI's latter day disparagement of "an infringing party's 'expert'" pales when viewed in light of TRI's argument in the district court that

> "[t]his [anticipation of the '437 and '817 patents] is a classic fact question ... [t]he jury must be permitted to determine which expert it believes."

(TRI opposition to NTI's motion for summary judgment of invalidity of the '436 and '817 patents).

In fact, TRI's above-quoted position was consistent with this Court's recognition that "[t]he question whether an improvement requires more mechanical skill or the exercise of the faculty of invention, is one of fact ... to be left to the jury." *Thompson Spot Welder Company v. Ford Motor Company*, 265 U.S. 445, 446 (1924). Having correctly relied upon the established law in the courts below, TRI is uniquely unqualified to raise a new and contrary ground for review in its Petition. *See Delta Air Lines, Inc. v. August,* 450 U.S. 346, 362 (1981) ("[t]hat question was not raised in the Court of Appeals and is not properly before us").

In sum, in order to comport with the law as applied and the facts as found in the district court, and to be "expressed concisely *in relation to the circumstances of the case*" (S.Ct. R. 14, emphasis added), TRI's first "question presented" would read as follows:

> Is the longstanding practice of submitting issues of patent validity to a jury to be disturbed in a case where (1) the jury was properly instructed as to the law, including the presumption of patent validity and the heavy burden placed upon a party alleging invalidity, (2) the patentee did not object to the submission of the validity issue to the jury, and (3) the patentee expressly urged that the jury should "determine which expert it believes?"

So phrased, the first question presented is unworthy of this Court's review.

2. **TRI'S Question Two:**

As patent validity is ultimately a question of law, where all of the prior art was before the Patent and Trademark Office, and the Office determined

that the invention was neither obvious nor anticipated, should the Federal Circuit review de novo (a) a jury's verdict overturning the determination of the office and (b) the trial court's denial of judgment as a matter of law?[6]

In seeking *de novo* review of the jury's verdict, TRI purports to rely upon and seek an extension of *Markman v. Westview Instruments, Inc., supra.* There it was held that the issue of claim construction was one of law, incapable of determination by a jury.

Now TRI would have this Court extend *Markman* to invalidity determinations.[7]

In this regard, it is respectfully submitted that this Court's decision in *Markman* to place patent claim construction outside the ambit of the Seventh Amendment guarantee was not lightly made, and was based upon considerations that apply uniquely to claim construction — and not to issues of patent validity.

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[6] *See supra*, pages 9 fn 3 and 12 fn 5, regarding TRI's reference to "all of the prior art." Moreover, would TRI urge *de novo* review only where all of the prior art was considered before the PTO; most of it; some of it; none of it?

[7] TRI benignly leaves it to this Court to decide how to accomplish this end, e.g. take it away from the jury altogether, change the standard to "clear error," or let the jury decide and then ignore its findings in a "*de novo*" review. Significantly, none of these options include what TRI expressly sought and obtained in the district court, namely on the issue of validity "[t]he jury must be permitted to determine which expert it believes."

For example, although this Court sought but found little or no guidance from the common law on jury consideration of claim construction, 116 S.Ct. at 1393, such was not the case with early "so-called novelty actions" (analogous to present day validity determinations) which the Court noted were submitted to juries. (*Id.* at 1390).

Moreover, claim construction was noted by this Court to be "a special occupation ... [wherein] [t]he judge, from his training and discipline, is more likely to be right, in performing such a duty, than a jury can be expected to be." (*Id.* at 1395). This was found to be especially true in that a patent claim is in the nature of a document; it therefore being "doubtful" that "credibility determinations" as to expert testimony would be key, and in any event "subsumed within the necessarily sophisticated analysis of the whole document ...." (*Id.* at 1393).

This is to be contrasted with this Court's statements in *Markman* with respect to expert testimony generally, where the jury is entrusted by the Seventh Amendment with the "capability to evaluate demeanor ... sense the 'mainsprings of human conduct' ... or to reflect community standards." (*Id.*).

This was, of course, the exact argument that TRI made in the district court, i.e.: that as to the validity of the '436 and

'817 patents, "[t]he jury must be permitted to determine which expert it believes."

Consistent with this Court's observations in *Markman*, and TRI's argument in the district court, the determination of obviousness *requires* that underlying factual inquiries be made, including the scope and the content of the prior art, the differences between the prior art and the claimed invention, and the level of skill in the art. *Graham v. John Deere Co.*, 383 U.S. 1 (1966). *See also Thompson supra* ("the question [of inventive contribution] is one of fact ... to be left to the jury"). Apparently TRI would have this Court place these purely factual inquiries outside the ambit of the Seventh Amendment, again without suggestion as to why this is necessary or how it could be accomplished in a manner consistent with the principles and policies underlying the Seventh Amendment.

In the circumstances, TRI's second "question presented" must also be restated if it is to be expressed in compliance with Supreme Court Rule 14, as well as consistently with the recent holding by this Court in *Markman*, i.e.:

> 2. Should a patent owner be heard to argue that the Seventh Amendment guarantee does not apply to issues of patent validity, particularly where the determination of validity requires factual inquiries and where the patent owner expressly argued in the

district court that the validity issue turned on the credibility of expert testimony?

Such a question does not merit the grant of certiorari.

3. TRI'S Question Three:

Should the Federal Circuit review the construction of patent claims de novo in light of the specification and claims?

As to this purported question, TRI makes only the bare assertion that "[i]n this case, the trial court misconstrued the patent claims." (Petition, page 28). TRI does not favor this Court with even a hint as to what claims were misconstrued, how they were misconstrued, or indeed how claim construction bears at all on the sole issue presented in the Petition — namely the validity of the '436 and '817 patents. Indeed, TRI declines even to mention the detailed undertaking by the district court in compliance with its *Markman* obligation (*See* e.g. pages E-1 through E-6 of the Appendix to TRI's Petition, wherein the district court construed claims 1 and 10 of the '436 patent as a matter of law).

By urging in this Court that the claims should have been construed *de novo* by the Court of Appeals, TRI poses a question that is at best in violation of Supreme Court Rule 14, and at worst purely hypothetical. Properly stated, TRI's third question should read:

Is any issue regarding claim construction worthy of Supreme Court review in a case where the petitioner does not explain what, if any, claim was misconstrued by the district court?

4. **TRI's Question Four:**

Should a patent be held invalid under the "on sale" bar of 35 U.S.C. § 102(b) where the invention as a whole was not "fully completed" one year before filing of the patent application? For the purpose of obviousness and anticipation determinations, should an inventor's own work be classified as "prior art" by virtue of the "on sale" bar of 35 U.S.C. § 102(b) where the work as a whole was not "fully completed" with respect to the patented invention?

(Petitioner alternatively requests grant and consolidation with *Pfaff v. Wells Electronics, Inc.*, No. 97-1130, or hold pending the Court's decision in *Pfaff.*)

TRI's fourth and last question is discussed at page 29 of its Petition. There, in a mere two sentences and a footnote, TRI argues that the present case "presents the same basic question" as is presented in *Pfaff v. Wells Electronics, Inc.*, No. 97-1130, in that:

> In *Pfaff*, the product was not complete because it had not been built. In this case, the ConMode I was not complete because it was inoperable.

As noted *supra.*, it is almost twenty (20) years since the Court of Customs and Patent Appeals firmly and finally rejected the argument that ConMode I was inoperable, i.e.:

> Appellant also relies on the theory that the bar of § 102(b) should not apply because, at the time prior to the critical date when Market Facts and others were using the systems, the systems were "inoperative."
>
> * * *
>
> We find this argument wanting because appellant has failed to show that the *claimed invention* was inoperative.
>
> * * *
>
> We find it difficult to imagine that appellant would demonstrate an inoperative system at a trade show and elsewhere in an effort to drum up business.

In re Theis, 610 F.2d at 793-94.

Whatever facts and issues may be presented in *Pfaff*, *In re Theis* takes away TRI's sole stated basis as to any possible similarity. Moreover, once the "on sale" issue as to ConMode I was properly and finally decided in *In re Theis*, it could not *and in fact was not* relitigated in the district court below. ConMode I was conceded by TRI to be prior art, and the '436 and '817 patents were held invalid, *inter alia*, as being obvious in view of the prior art ConMode I device. It is simply too late now to ask this Court whether ConMode I "should ... be classified as 'prior art'." *Adickes v. S. H. Cress & Co.*, 398 U.S. 144, 147 n. 2 (1970) (The Supreme Court will not ordinarily consider "issues neither raised before nor considered by the Court of Appeals").

TRI's "fourth question," like its predecessors, is not appropriate for Supreme Court review.

CONCLUSION

It is respectfully submitted that TRI's Petition be *denied* in all respects.

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OFFICE OF THE CLERK
SUPREME COURT, U.S.

No. 97-1773

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

THEIS RESEARCH, INC.
Petitioner
v.

OCTEL COMMUNICATIONS CORPORATION AND
NORTHERN TELECOM INC.
Respondents

**On Petition for Writ of Certiorari
to the United States Court of Appeals
for the Federal Circuit**

REPLY TO BRIEFS IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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16 pp

QUESTIONS PRESENTED

1. Where all of the prior art was before the Patent and Trademark Office, should a jury be invited and empowered to disregard the Office's determinations, substituting its own opinions of obviousness and anticipation (and those of an infringing party's "expert") for the Office's determinations? Or should the trial court have sustained the Office's determinations absent clear error or an abuse of discretion?

2. As patent validity is ultimately a question of law, where all of the prior art was before the Patent and Trademark Office, and the Office determined that the invention was neither obvious nor anticipated, should the Federal Circuit review de novo (a) a jury's verdict overturning the determination of the Office and (b) the trial court's denial of judgment as a matter of law?

3. Should the Federal Circuit review the construction of patent claims de novo in light of the specification and claims?

4. Should a patent be held invalid under the "on sale" bar of 35 U.S.C. § 102(b) where the invention as a whole was not "fully completed" one year before filing of the patent application? For the purpose of obviousness and anticipation determinations, should an inventor's own work be classified as "prior art" by virtue of the "on sale" bar of 35 U.S.C. § 102(b) where the work as a whole was not "fully completed" with respect to the patented invention?

SUPPLEMENTAL STATEMENT RE PARTIES

Rule 29.6 Statement: As stated in the petition, there are no parent companies or nonwholly-owned subsidiaries of petitioner Theis Research, Inc. (Theis Research).

Respondent Northern Telecom Inc. did not include a statement under Rule 29.6 in the opposition brief served on petitioner. Petitioner understands that Northern Telecom Inc. is a wholly-owned subsidiary of Northern Telecom Limited, the majority owner of which is BCE Inc. *See* http://www.bce.ca/e/about/corporate/organization.

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In an era when breakthrough technological innovation has become a matter of necessity to the Nation's position in the world economy, the Federal Circuit has stripped reliability and predictability from the U.S. patent system. Certainty in the protection of ideas, expressed as protected intellectual properties, is essential to enterprise in this information age.

1. This Case Presents the Opportunity to Resolve Serious Problems in Patent Adjudication

While respondents suggest that the scientific, technical details that fill much of the record in this case would make certiorari inappropriate, the questions before this Court are not so burdened. Petitioner respects the role of this Court, and does not ask it to correct every error that occurred below. Instead, the issues presented by the petition go to the heart of the legal process, and they address what is so fundamentally wrong with the Federal Circuit's approach—particularly its role vis-a-vis the executive branch.

This case squarely presents patent validity decisionmaking by the judiciary that is duplicative of complex patentability procedures already concluded by the Patent and Trademark Office.[1] Because the instant validity issues turn on a comparison of the claimed invention with the prior art, and because respondents relied on prior art that was already before the Office, this case presents the principal issue with utmost simplicity: Should the courts be redoing the work already done by the Office? Or should they instead be asking whether the Office committed clear error or an abuse of discretion? The questions presented are no hypothetical abstractions; they are concretely cast by the proceedings below.[2]

---

[1] Octel forthrightly acknowledges that respondents relied on the Con Mode I and the Shepard patent as prior art. Northern Telecom hedges (9 n.3, 13 n.5), suggesting that the jury "presumably understood" this prior art differently (assuming it was understood) and complaining that the examiner had not "asserted" this prior art in the "same manner" (because, of course, the examiner reached a contrary result). This simply confirms that this case joins the questions raised.

In their argument for denial of certiorari, respondents make numerous references correlating Con Mode I and *In re Theis.* The '436 patent claims at issue, however, concern the Con Mode II, not the Con Mode I, and the '817 patent claims (and certain '436 patent claims not in issue) concern neither the Con Mode I nor the Con Mode II. Furthermore, the court in *In re Theis* did not conclude that the Con Mode I was invalidating prior art, even for the '930 application claims at issue in that case. *In re Theis,* 610 F.2d 786, 794 (C.C.P.A. 1979) ("Prior art is not involved in this case"). *See* petition at 7-8, 13 n.16.

As discussed in section 3, *infra*, petitioner preserved the issues below. Yes, petitioner wanted a jury to decide the infringement of its patent claims. But it did not want a jury to substitute de novo its judgment for that of the Patent and Trademark Office on validity questions that had already been regularly determined by the Office.[3]

Petitioner's vested interest in this Court's review of the Federal Circuit's defective approach to patent validity decisions coincides with important public interests. As Judge Nies stated:

"The validity/invalidity of a patent is a matter

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[2] Cases where a patent claim is alleged to be obvious or anticipated based on prior art that was *not* before the Patent and Trademark Office need not be decided. Such a case does not involve redoing a determination already made by the Office. Nevertheless, guidance beyond the contours of this case might appropriately be given. For example, lower courts ought to be wary of validity claims based on "new" prior art that is not material. Amici Intellectual Property Creators et al. suggest that litigation be stayed to permit the Office to reexamine the patent issuance against any newly discovered prior art. Amicus brief at 19. See 35 U.S.C. § 302.

[3] Octel's citations are to general jury demands at the end of the pleadings. Northern Telecom's reference is discussed at n.10, *infra.*

> which affects the public, not merely the litigants. Yet, under the confusing jury jurisprudence of this court, the matter can be treated as if only the rights of the litigants were involved."

In re Lockwood, 50 F.3d 966, 989 (Fed. Cir. 1995) (dissent from denial of en banc rehearing), *cert. granted sub nom. American Airlines, Inc. v. Lockwood*, 515 U.S. 112, *vacated and remanded*, 515 U.S. 1182 (1995).

Respondents erroneously argue that because 35 U.S.C. § 282 makes invalidity a defense, every declaratory judgment and infringement action tests the patentability of an invention by restarting the decision-making process from the beginning. Everything is up for grabs.[4]

It is the same problem Judge Nies identified. A patent is just a ticket to litigation. The statutory presumption of validity becomes hollow and meaningless. The administrative decisions are entirely displaced by the battleground of litigation between the parties.

This case provides a particular opportunity for the Court to resolve the uncertainties caused by the Federal Circuit's approach to adjudicating patent validity. Accordingly, petitioner respectfully submits that certiorari should be granted for plenary consideration of Questions 1 and 2.[5]

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[4] The invitation for infringement harms more than patent holders and investor confidence. Competitors who honor patents suffer a comparative disadvantage to those willing to infringe.

The infringer is encouraged to assert every possible theory of invalidity. Respondents unsuccessfully challenged validity on best mode and indefiniteness theories and failed on contentions that claims 1 and 10 of the '436 patent were anticipated. Record at 00057-00059.

[5] Petitioner respectfully submits that Questions 3 and 4, if not given plenary consideration, should be held for grant, vacate, and remand for further consideration.

As to Question 3, petitioner did not ask the Court to review the

2. Respondents Demonstrate the Timeliness of the Issues Presented for Review

For the proposition that patent validity is a fact question that may be given to a jury, the most recent decision of this Court cited by respondents was decided in 1936.[6] Intervening events in the last 60 years, such as this Court's decision in *Chevron U.S.A. v. Natural Res. Def. Council*, 467 U.S. 837 (1984), the passage of the Administrative Procedure Act (5 U.S.C. § 551 et seq.) in 1946, and the adoption of the current Patent Act in 1952, demonstrate that the issues presented are ripe for review. Respondents also neglected to mention this Court's intervening pronouncement in *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966)--that "the ultimate question of patent

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details of errors in claim construction below, but demonstrated the failure of the Federal Circuit to interpret the patent claims de novo in accordance with the specification and claims.

Question 4 presents an alternative ground for overturning the invalidity decisions below based on a corollary to the "on sale" bar issue being reviewed by this Court in *Pfaff v. Wells Electronics, Inc.*, No. 97-1130.

[6] Insofar as respondents suggest that de novo jury determination of patent validity issues is obligatory, Northern Telecom (at 18) perhaps answers this issue best by stating that the Seventh Amendment entrusts juries with the "'capability to evaluate demeanor . . . sense the "mainsprings of human conduct" . . . or to reflect community standards.'" These are not the criteria for comparing a claimed invention with the prior technical and scientific art.

Beyond this, the contention is amply answered at the petition stage by reference to Judge Nies' contrary opinion in *In re Lockwood*, 50 F.3d at 980 et seq. Petitioner's previous summary of the issue in *In re Lockwood*, as whether juries should decide patent validity, was both fair and accurate. As was the case in *In re Lockwood*, respondents challenged the validity of the patent claims by declaratory judgment actions.

validity is one of law."[7]

Absent clear error or a decision that is arbitrary and capricious, judgment calls made by the Patent and Trademark Office should be sustained by the courts. Contrary to respondents' accusations of unfairness, this does not render the statutory presumption of validity conclusive. It simply establishes an orderly process for testing the presumption by recognizing the primary role of the Office in the patent system. As this Court stated in *Graham:*

> "While we have focused attention on the appropriate standard to be applied by the courts, it must be remembered that the primary responsibility for sifting out unpatentable material lies in the Patent Office. To await litigation is—for all practical purposes—to debilitate the system."

Graham v. John Deere Co., 383 U.S. at 18. Regrettably, the Federal Circuit has debilitated the patent system by disregarding determinations already made by the Office, and by assigning juries the task of redoing the work done by the Office.[8]

As Judge Nies seemingly anticipated, the solution will not come from within the Federal Circuit.

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[7] As Judge Nies noted:

> "Resolution of the factual inquiries outlined in *Graham* does not dictate the answer to the question of obviousness. It merely brings one face to face with a judgmental decision."

In re Lockwood, 50 F.3d at 988 n.16. *See* petition at 20 & n.21.

[8] By employing the limited substantial evidence review of invalidity verdicts espoused by respondents (*see U.S. Surgical Corp. v. Ethicon, Inc.*, 103 F.3d 1554 (Fed. Cir. 1997)), the Federal Circuit *automatically precludes itself from even considering the prior determination made by the Office:* The test looks only at the evidence supporting the verdict; contrary evidence (including the prosecution history and the administrative determinations) is given no weight.

> "[B]ecause of the strong language in *Connell*,[9] and later precedent endorsing jury rights, the right to a jury on validity issues has simply become ingrained without analysis. In banc efforts to clarify the issue have been unsuccessful, as this case itself illustrates."

In re Lockwood, 50 F.3d at 988 (footnotes omitted). The Federal Circuit is floundering. It has failed to identify an approach to patent validity adjudications that accords with (1) this Court's determination in *Graham* that validity is ultimately an issue of law and (2) this Court's emphasis on the Federal Circuit's responsibility to promote consistency in patent law. (*See Warner Jenkinson Co. V. Hilton Davis Chemical Co.*, __ U.S. __, 117 S.Ct. 1040, 1053 n.8; *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 116 S.Ct. 1384, 1396.)

3. The Issues Were Preserved Below

Both at trial and on appeal, in opposing respondents' allegations (that claims 1 and 10 of the '436 patent and claim 1 of the '817 patent were obvious and anticipated), Theis Research relied on the prior determination of these issues to the contrary by the Patent and Trademark Office with the very same prior art before it.[10] Petitioner similarly emphasized in briefing

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[9] Petitioner referenced *Connell v. Sears Roebuck & Co.*, 722 F.2d 1542 (Fed. Cir. 1983) in the petition at 22.

[10] At trial, Rene Tegtmeyer, Assistant Commissioner for Patents from 1975 to 1989, reviewed the patent prosecution histories (the file wrappers) and detailed how the records showed that the patent examiner had before him and considered the same prior art in determining that each of the claimed inventions was novel (i.e., not anticipated) and nonobvious. 14940-14942, 14956-14962. In argument, petitioner's counsel relied on the patent examiner's determination in addressing each of these validity issues. 15014.

Northern Telecom quotes repeatedly a sentence that appeared in petitioner's opposition to a summary judgment motion that was based on appeal that: "*The PTO Examiner was aware of this prior art and* the *In re Theis* decision. 15121. No other prior art was relied on by Octel et al." (Emphasis in original.) "The Examiner was satisfied and issued the patent. Nothing has been presented by Octel et al to show the Examiner was wrong." *See* opening brief at 13; reply brief at 2.

In moving for judgment as a matter of law, petitioner specifically urged that obviousness is a question of law that the trial court was obliged to decide in its favor. *See* petition, Appendix, p. C-2. This contention was timely. In this regard, petitioner did no less than the defendant in *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), where the defendant did not object to the trial court's instruction to the jury to interpret the patent claims, but then contended in moving for judgment as a matter of law that claim construction was a matter for decision by the court. *See Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 973, 975 n.5. *See also Boyle v.*

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on a declaration of Dr. Larky. Northern Telecom neglected to acknowledge the following from the same opposition memorandum:

> "The '436 and '817 patents are presumed valid. *Northern Telecom's motion asks the Court to second guess the Patent Examiner in issuing the '436 and '817 patents. However, Northern Telecom has offered nothing new that rebuts the presumption of validity.* Indeed, Northern Telecom failed to point out a critical undisputed fact — the Shepard reference was *not* withheld from the Patent Office. As conclusively demonstrated by the search notes in the file history, the Examiner for both the '436 and '817 patents did *in fact* go back and review the parent application (Serial No. 856,105) where *Shepard* was extensively discussed and rejected."

(05485:9-19 [first emphasis added].)

United Technologies Corp., 487 U.S. 500, 513-514. (1988).[11]

4. Respondents' Misstatements Demonstrate The Fertile Ground for Obfuscation in Patent Validity Decisions

Respondents disparage the pioneering work of Peter Theis, and yet they had to rely on his own invention to defeat his patent claims below.[12] They say Theis' inventions went nowhere and failed commercially. Yet *the patent claims were found to be*

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[11] Petitioner similarly sought de novo interpretation of the claims in moving for a new trial and judgment as a matter of law with respect to the Octel applications and Northern Telecom systems found not to infringe. On appeal, petitioner contended that the Federal Circuit was obligated to overturn the trial court's erroneous claim constructions by interpreting the claims de novo in accordance with the text of the claims, the specification, and the prosecution history. Opening brief at 20-21, 25-27, 29; reply brief 10, 26.

Respondents' contention—that petitioner did not argue to the Federal Circuit that the physical Con Mode I device, inoperable for telephone applications before the critical date, was not prior art to patent claims limited to telephone applications—is also erroneous. Opening brief at 14-15; reply brief at 1-2.

[12] The Theis patent claims involved in this case are still the fundamental building blocks of cutting-edge technology that may be sampled by dialing (847) 473-7333. This particular technology is commercially available through Conversational Voice Technologies Corporation (CVTC), which provides this demonstration line.

The invention, as recited in the patent claims, is not a "tape-recorder-based technology" as misstated by Northern Telecom. Indeed, the record shows that Theis considered computerized voice digitizing in the initial product development in the early 1970s (he had worked with computers as a Yale undergraduate in the mid-1950s and in his early career, 14355-14357, 14375-14376) but, because of the high cost of computers at the time, used analog tape machines for the early commercial products. 14375-14377. As of the time of trial, the digital and analog applications were used interchangeably. 14375.

infringed, and the commercial success of these products is acknowledged and well-known. Theis also successfully marketed the technology.[13] Respondents' unsupported, untrue assertions and misleading statements are indicative of how they tried the case and argued the appeal. While openly disparaging remarks are relatively easy to spot, the misstatements of the technical matters can be quite slippery.[14] Importantly, all of the pertinent issues were before the Patent and Trademark Office, the administrative body with expertise in these matters.

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[13] The prosecution history records the successful marketing of the Con Mode II. See, e.g., 16754-16765. CVTC, which Theis formed in 1973, continued to market his Con Mode system with success. 14374-14375, 14381. For example, using the same underlying technology, CVTC pioneered automated operator services at Pacific Bell in the 1980s. 14375, 14393. CVTC is *still* a thriving business built on the technology that Theis invented. 14375. By Northern Telecom's apparent standards, no small business may be deemed a "success," but Theis' inventive efforts have employed people and brought innovative technologies to the marketplace for decades.

The statements in the petition (at 5) concerning the dates of delivery (starting 1/73) and use (after 2/4/73) of the Con Mode I are correct and supported by the prosecution history. *See* 16782-16786. Northern Telecom (at 2-3) misconstrues a reference by the *In re Theis* court (610 F.2d at 793-794) to "when Market Facts and others were using the systems, ..." The court was responding to a contention that the devices *delivered* before the critical date were not operative. 16833. Also, the court itself states that "it is not clear from the record that delivery of the systems to Market Facts actually took place prior to the critical date, ..." 610 F.2d at 791. (The Market Facts units were delivered in "February" 1973 but not installed until 4/1/73. 16753-16754.) Northern Telecom's "lament" is just so much sackcloth about nothing.

[14] Corrections of respondents' statements include the following:
- The Con Mode I did not encompass the "subject matter" of the '930 application claims.
- The Con Mode I was not the subject of a patent application. (Theis did not spend months of extreme effort to discover the major problem,

5. Conclusion

Theis Research respectfully requests that the Court grant the petition.

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June 9, 1998

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fix it, and then write a specification for the mode that did not work.)

- That the noise level circuit in the Con Mode I was intended to identify when a caller was talking does not make it a "speech detector" as that term is defined in the specification and file wrapper. 14363-14364, 16756-16761.
- The speech detector in the Con Mode II had the function of distinguishing spurious telephone line noises; the noise level circuit in Con Mode I and the "yes"/"no" circuit in Shepard did not. 05501-05509, 15041-15047, 16756-16761.
- The line control card in Con Mode I did not perform the same functions as the interface means in Con Mode II. 15041-15047, 16755-16763, 16780. For example, it did not perform the critical function of detecting caller hang-up; in Con Mode I that was assumed only by the absence of noise to the circuit on the tone board.
- Octel's citation to Dr. Gibson (14932) statement refers to the use of syllabic companding in a speech detector, not that it would have been natural for Theis to put a speech detector in the original Con Mode.
- Nothing in the prior art, including all of the cited references, showed either the means or the need for the speech detector and interface means until Theis discovered the problem after months of intense effort on a cutting-edge technology. The authority cited by Octel (at 17) confirms the patentability of the invention.

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No. 97-1773

In the
Supreme Court of the United States
October Term, 1997

Theis Research, Inc.
Petitioner
v.
Octel Communications Corporation and
Northern Telecom Inc.
Respondents

On Petition for Writ of Certiorari to
the United States Court of Appeals for the Federal Circuit

Motion for Leave to File Amici Curiae Brief and Brief in Support of Petition of Theis Research, Inc. for Writ of Certiorari

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No. 97-1773

In the
Supreme Court of the United States
October Term, 1997

Theis Research, Inc.
Petitioner
v.
Octel Communications Corporation and
Northern Telecom Inc.
Respondents

Motion for Leave to File Amici Curiae Brief

Pursuant to Rule 37.2(b) of the Rules of this Court, the inventors and inventor-related organizations listed below respectfully move the Court for leave to file a brief amicus curiae in support of the petitioner in the above-captioned case. Petitioner's counsel has consented to the filing of this brief but the respondents' counsel have not.

The petition for certiorari demonstrates that the Federal Circuit's dysfunctional approach to patent validity questions has injected great uncertainty into the U.S. patent system. The accompanying amicus curiae brief demonstrates the importance of independent and entrepreneurial inventors to the national interest and explains the great harm to invention and technological innovation being caused by the loss of a reliable patent system.

For these reasons, as well as those set forth in the accompanying amicus brief, movants respectfully request the Court to grant their motion for leave to file the accompanying brief supporting the petition for writ of certiorari.

Amicorum counsel David Roy Pressman, who originally joined with the other amici in submitting this motion and the accompanying brief pro se, now submits this motion and the accompanying brief as counsel of record for himself and all other amici.

June, 1998

Respectfully submitted,

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Intellectual Property Creators
Dr. Franco Modigliani, Nobel Laureate
United Inventors Association of the USA
American College of Physician Inventors
Intellectual Property Reserve Corp.
Lawrence Lockwood
David Roy Pressman

Introduction

The decision of the Federal Circuit in the Theis Research case crystallized the growing view among entrepreneurial inventors that a dysfunctional judiciary has rendered the United States patent system feckless and unreliable. The decision below was not an anomaly, but it was particularly discouraging to entrepreneurial inventors: Peter Theis is highly regarded by his peers; if his patents could so easily be cast aside by the courts, anyone's could. The failure of the Federal Circuit to publish its decision in this case confirmed the perception that the Federal Circuit has a dismissive attitude toward entrepreneurial inventors. The Theis decision continues a trend that–unless corrected by this Court–marks the loss of a patent system that encourages useful inventions and wealth creation. It is disheartening to inventors, who spend years of their life trying to contribute to the public good, to find their life work rendered worthless by courts that in practice give the benefit of all doubt to infringers.

Interests of the Amici Curiae

The signatories represent a variety of people and organizations that believe the entrepreneurial inventor is important to technological progress. Paul Heckel, the Founder and President of IPC, is the author of this amicus brief.[1] Other than Mr. Heckel, PEF and IPRC, the amici can't speak from personal knowledge about the below-described study of patent cases, nor do amici have expertise of the legal doctrine required to solve the problem. All of the amici attest to the importance of entrepreneurial inventors and a viable patent system to the national interest. All support the request for certiorari.

Intellectual Property Creators

Intellectual Property Creators[2] (IPC) is a non-profit organization of entrepreneurial inventors. It was founded in 1994 by battle scarred inventors to address public policy issues of patent legislation and enforcement. The seminal event that caused its founding was legislation introduced at the behest of multinational companies to "harmonize" the U.S. patent laws with Europe and Japan. IPC opposed such changes as they would weaken the U.S. patent system.

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[1] This brief was sent in draft to counsel for petitioner for editorial comments that were incorporated where helpful. Petitioner's counsel also provided the draft of the motion for leave to file. Law Practice Interests LLC, a non-equity investor in petitioner, contributed funds used for printing expenses.

[2] More information on IPC and information in support of this amicus brief can be found on the IPC website at http://www.heckel.org.

IPC was founded to represent the public policy interests of inventors, through the process from invention, to entrepreneurial startups and patent enforcement. IPC's interests are different from the Intellectual Property Owners and American Intellectual Property Law Association who represent large companies and major patent law firms whose priority is to protect established firms rather than encourage new invention. Three of IPC's five founding board members, Dr. Damadian, Dr. Greatbatch, and Dr. Rines, are inductees into the National Inventors Hall of Fame[3]. IPC's board members are:

- Paul Heckel, the Founder and President of IPC, is a software developer who patented his software and enforced patents on his inventions. He wrote *The Elements of Friendly Software Design*[4] and *Debunking the Software Patent Myths*[5]
- Dr. Raymond Damadian, the inventor of Magnetic Imaging[6], founded Fonar and with it the MRI industry.
- Dr. Wilson Greatbatch is the inventor of the Cardiac Pacemaker and founder of Greatbatch Industries.

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[3] A committee of 40 professional organizations select nominees for induction into the National Inventors Hall of Fame each year. (www.invent.org)

[4] Sybex, Second Edition 1991

[5] *The Communications of the ACM,* June 1992

[6] Dr. Damadian showed that cancerous tissue had different properties from non-cancerous tissue and invented the MRI machine to scan body tissue to record the variances in Nuclear Magnetic Resonance signals within the body. He. Converting the scanned signals to an image was a later contribution by some one else. See "The Pioneers of NMR and Magnetic Resonance" in *Medicine: The Story of MRI* by James Mattson and Merrill Simon, Bar-Ilan University Press, 1996.

- Dr. Robert Rines invented high definition radar and sonar. A patent lawyer, he founded the Franklin Pierce Law Center.
- Stanley Mason's many inventions include microwavable cookware, the granola bar, the shaped disposable paper diaper, and the squeezable ketchup bottle.

IPC's board voted unanimously to file this amicus.

Peter Theis is a member of IPC and was a founding board member.

Dr. Modigliani

Dr. Franco Modigliani, an inventor and patentholder, is a Nobel Laureate economist. With Robert Solow, he organized a letter to Congress, signed by 26 Nobel Laureates, on patent legislation that would affect entrepreneurial inventors.

The United Inventors Association of the USA (UIA-USA)

The United Inventors Association of the USA is an official organization of inventors groups throughout the country representing 3000 inventors. Established in 1990 at the urging of the U.S. Department of Energy, the UIA-USA is dedicated to educating creative individuals in their pursuit of developing new product concepts. It serves as an umbrella organization for many regional inventors groups throughout the country.

American College of Physician Inventors

The American College of Physician inventors is an organization of over 100 physicians who are inventors.

Other Amici

PatentEnforcement Fund (PEF) and Intellectual Property Reserve Corp. (IPRC) are companies that fund patent litigation and whose cases are included in the study reported below.

Lawrence Lockwood is the inventor in one of the cases in the study, *Lockwood v. American Airlines, Inc.*, 107 F.3d 1565 (Fed Cir. 1997, a case in which the Supreme Court had granted certiorari, 515 U.S. 112, is cited in the petition for a writ of certiorari[7].

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[7] See also *In re Lockwood,* 50 F.3d 966 (Fed. Cir. 1995)

David Pressman is a patent lawyer and the author of *Patent It Yourself*[8], a self-help book that has sold over 150,000 copies. Mr. Pressman became counsel of record when the Clerk required resubmission of this brief by counsel.

Summary of the Argument

In December 1997, Intellectual Property Creators reviewed the results of several patent cases of credible entrepreneurial inventors that it had been following and had been ultimately decided by the Federal Circuit. It was distressed that 13 of the 14 cases were ultimately decided against the inventor, thus destroying the property rights manifest in their patents. A deeper analysis showed that the courts are regularly overturning the validity of patents without substantial new evidence. The administration of patent cases by the courts has become dysfunctional. It is not fulfilling the intent of the Legislature. It is not providing justice. And it is not promoting "the progress of science and useful arts" as intended by the Framers of the Constitution. The courts are systematically destroying an important mechanism of wealth creation.

The Federal Circuit's decision in Mr. Theis' case, especially in the context of the 14 case study, sends a chilling message to entrepreneurial inventors that it is doubtful that the courts will uphold the validity of their patents. It (1) removes the incentive to bring new ideas to the marketplace, (2) erodes confidence in the justice system by the inequitable treatment of disparately financed parties, (3) deters inventors from manufacturing, marketing and licensing their technologies, (4) destroys the confidence and reliability necessary for investment in new technologies, (5) discourages inventors from enforcing their patents, and (6) vitiates the incentive to seek patent protection in favor of trade secrets, and fosters abandonment of inventions altogether. The Federal Circuit's current approach is frustrating the encouragement and promotion of the inventive process by the patent system.

The case of Theis Research appears to be an ideal case for the Court to examine these important issues; it is illustrative

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8 *Patent It Yourself* by David Pressman, 6th Edition, Nolo Press, 1997.

of many of these cases. Peter Theis is typical of the 14 inventors. He spent 25 years of his life developing advanced technologies under the patent system and introducing new technologies to the marketplace, under what he perceived to be the protection of Constitutionally based patent laws. Mr. Theis' case, and similar cases, manifest the need for an examination of standards of review and how they are being applied by the courts. Mr. Theis and other inventors deserve more than a cursory review of their cases by the Federal Circuit--particularly after the Federal Circuit turns trial courts loose to redo the patent validity determinations already made by the Patent and Trademark Office. The disposition of cases such as Mr. Theis' sends a clear and unequivocal message that the patent system is being made dysfunctional by the Federal Circuit's current approach.

The amici support Theis Research's request for certiorari. The issue of patent validity is an important one with major public policy ramifications: how the courts encourage or discourage invention, especially by entrepreneurial or noncorporate inventors. The effect of the courts' current standards, as implemented, creates a strong bias against entrepreneurial inventors. This has a chilling effect on entrepreneurial invention, the major source of important inventions.

Mr. Theis is a representative entrepreneurial inventor in that many inventors face similar fact patterns. They conceive an invention, patent it, sacrifice years, money, and effort to start a company and market products based on their invention only to have it taken without purchase of a license.

In many situations similar to the Theis case, inventors are forced into expensive protracted litigation with high powered law firms and in-house legal departments. They have their lives, health, well-being and companies ruined, their hopes and dreams destroyed, and even have their reputation besmirched by false charges of inequitable conduct. The Theis case, like others, demonstrates that a patent is often a curse in disguise and it can be dangerous to have one. As one inventor said after going through the process: "It was my life and now it's gone".

We present the results of the IPC study of 14 recent patent cases, 13 of which were decided by the Federal Circuit. The inventor won in only one of those cases. In four of these cases[9], the inventor's patent was invalidated on the basis of the same prior art that was before the PTO when it granted the patent. The results of these cases exemplify the unfortunate experience that is repeatedly heard from entrepreneurial inventors.

The issues addressed here do not deal with the arcane details of technology or of patent law. They involve general issues of law and legal standards. Our concerns are with:

- Predictability, certainty, fairness, and timeliness of decisions
- Giving force to Constitutional and legislative intent
- Protecting the property rights of the weak against the big and strong

Our Arguments Address Important Public Policy Issues

Chief Justice Rehnquist, in his opinion concurring in part and dissenting in part in *Daubert v. Merrill Dow Pharmaceuticals, Inc*, 509 U.S. 579, 599 (1993), noted that many of the briefs were "markedly different from typical briefs, in that large parts of them do not deal with decided cases or statutory language". He seemingly approved of the amicus briefs as providing useful background. It is in that spirit that our brief is presented.

The arguments presented here are based primarily on public policy. First, we show that entrepreneurial and independent inventors play the major role in creating new technologies. Second, we show that the courts' application of current standards produces unpredictable, uncertain, untimely and biased results, at least where entrepreneurial inventors are involved. This is especially true with respect to patent validity. These results make it difficult, if not impossible, to attract investment in an important source of innovation.

We have no doubt but that if the Supreme Court grants certiorari that respected legal academics and others knowledgeable on the issues will file amicus briefs.

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[9] The authors have not been able to verify this issue with respect to all the cases and so the actual number could be 3 or even 5.

Inventors and Wealth Creation

The Importance of Technological Innovation

Invention is important. Civilization would not be possible without the invention of writing. Not only did the Founding Fathers give inventors rights to their inventions,[10] but two of them, Jefferson and Franklin[11], were substantial inventors and scientists. In 1997, the United States spent $74 billion dollars in R & D funding[12]. Early theories of economics held that wealth was created by land or by labor. As a result of Robert Solow's Nobel Prize-winning work, economists now know that wealth is created by innovation, especially technical innovation.

This means that patents are the major administrative mechanism of wealth creation. Unlike most of this Court's civil cases, which involve wealth *allocation*, the issues involving patents involve wealth *creation*.

Entrepreneurial inventors, as they don't belong to corporate organizations, are more dependent on the patent system than are other sources of invention. Their success and the entry of well financed infringers in the market will be determined by whether the courts are seen as enforcing patent rights.

Who Are Entrepreneurial Inventors?

Entrepreneurial inventors are called by many names—independent inventors, private inventors, maverick inventors, and small company inventors. We use the name entrepreneurial inventors because most of them start companies and develop and market their inventions. They are independent by nature and pursue their inventions outside of a corporate or government environment—usually in the face of conventional wisdom. They do not fit naturally in organizations and operate without corporate life support systems. They take on the financial risk of the invention and do what is necessary, from selling, to raising money, to inventing in new areas needed to support the basic invention. Most have worked for companies, universities or the

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10 U.S. Constitution, Article 1, Section 8.

[11] See I. Bernard Cohen, *Science and the Founding Fathers* Norton, 1995.

12 Volume 1, Budget of the U.S. Government FY 1999, page 99.

government at some time. They are achievement oriented[13].

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[13] The notion of a shift from the "garage" inventors of the past, to the modern corporate or government sponsored research, is a common error. Didn't the Wright Brothers invent the airplane in an era when government didn't fund research? Didn't the Manhattan project demonstrate the modern mode of invention where government and industry invented the atomic bomb?

The answers to both questions is an emphatic "No!". Samuel Langley received $50,000 from the U.S. Congress to develop an airplane. He failed. The New York Times on December 10, 1903, just seven days before Kitty Hawk said:

> "We hope that Professor Langley will not put his substantial greatness as a scientist in further peril by continuing to waste his time and the money involved in further air experiments. Life is short, and he is capable of services to humanity incomparably greater than can be expected to result from trying to fly. For students and investigators of the Langley type there are more useful employment's with fewer disappointments and mortifications than have been the portion of aerial navigators since the days of Iccarus."

The Atomic Bomb was invented by Leo Szilard who filed a for a patent on in early 1932. As a Hungarian Jew who saw Nazism first hand, he persisted in bringing his invention to the attention of the physics community, preparing it for when Hahn and Strassman split the atom in 1938. Szilard persuaded Einstein to write his famous letter to Roosevelt launching the Manhattan Project. (See Lanouette, William *Genius in the Shadows*, Scribners, 1992 and *Who Invented the Atomic Bomb* by Paul Heckel (at http://www.heckel.org/Heckel/szilard.htm).

Organizations are crucial to projects such as the Manhattan Project, but inventions that seed such projects are the creatures of individual minds.

The Wright brothers rejected the establishment wisdom of Langley and pursued their own concept. Szilard's ideas were first rejected by most of the physics community. Though both were right, both suffered severely at the hands of the establishment. The Wright's were forced to sue infringers; many consider Wilbur Wright's early death in 1912 to be due to the rigors of his patent infringement trials. General Groves, head of the Manhattan project, used unethical tactics to get Szilard to sign away his patents. According to Lanouette:

> "Szilard's feisty rationality clashed repeatedly with the headstrong efficiency of this West Point Graduate ... Before the war was over, Groves would try to have Szilard jailed as an "enemy alien," order agents to follow him and to open his mail, and force him off the Manhattan Project payroll during a year-long dispute over the chain reaction patent."

Entrepreneurial inventors contrast to corporate inventors who are hired to do a job that includes inventing. Corporate inventors are on salary and incur little financial risk. When the money runs out, they generally switch to a different project or company[14]. They work on projects funded by their companies—that is to say, projects that were approved by a committee and so reflect the conventional wisdom as to what to invent.

Entrepreneurial Inventors Are a Major Source of Innovation

Dr. David Hill, president of PEF, a signatory to this brief, testified to Congress as to the importance of entrepreneurial inventors.

> ... the vast majority of important inventions which create new products and lead to entirely new industries come from independent inventors working alone or in very small companies. This conclusion is thoroughly documented by Department of Commerce statistics[15].... It is true that most of the R&D expenditures are by the major companies and

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The story of these two inventors illustrate that the nature of invention is of individual achievement and persistence, rather than corporate capability. There has been a conflict between inventors and the establishment from the time of Galilio. (See *Galileo, A Life* by James Reston, Jr. Harper-Collins, 1994, Page 47 [Galileo was granted a patent].)

The nature of invention has not changed in centuries for one simple reason: the nature of man has not changed. Nor has the nature of corporations changed. Nor are either likely to.

[14] Some work at corporations is done by inventors pursuing their own ideas without management approval. The hard disk drive was developed at IBM in spite of orders to kill the project. Dr. Kary Mullis used his spare time to invent the Polymerase Chain Reaction that makes DNA "fingerprinting" possible while facing opposition within his company. For this he received $10,000 and a Nobel Prize; his company sold his invention for $300 million dollars. It is the predictable project that gets official support.

[15] "...independent inventors (including inventor entrepreneurs) and small technologically-based companies are responsible for a remarkable percentage of the important inventions and innovations of this century—a much larger percentage than their relative investment in these actives would suggest." Technological Innovation: Its Environment and Management, U.S. Department of Commerce, January 1967, page 16. A list of 33 major inventions of entrepreneurial inventors appears on page 18 of the report.

> it is also true that many inventions are made by them and are reflected in many patents issued to them. However, the study of those patents and inventions shows that they are almost entirely improvements on existing products. Very rarely indeed does the breakthrough invention occur in work sponsored by a major corporation. It is those pioneering inventions which arise almost always with individual inventors and which are primarily responsible for the seeding and growth of our economy through the creation of new industries. Those are the inventions which we most value as a product of our Patent System[16].

In their book *The Sources of Invention*, Jewkes, Miller and Stillerman analyzed the literature on invention and did an analysis of the source of 60 inventions[17]. They quote several authorities on the importance of the individual inventor[18]. The authors make these points: (a) The sources of invention are diverse and many and all should be encouraged.[19] (b) Individual and entrepreneurial inventors are a very important source of major inventions, indeed the most important. They express concern that the move towards corporation employment of those with the ability to invent will actually discourage invention.[20] (c) Independent invention is resisted by corporations. "Genius breaks the rules and thereby confronts the institutions with challenges which may at first sight appear to constitute a danger to their very existence."[21].

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16 David Hill, in testimony before the U. S. House of Representatives Committee on the Judiciary Subcommittee on Courts and Intellectual Property, November 1, 1995.

[17] David Hill, in testimony before the U. S. House of Representatives Committee on the Judiciary Subcommittee on Courts and Intellectual Property, November 1, 1995.

18 See pages 79 to 81.

19 See pages 184-186.

20 See page 182.

21 See page 183.

Robert Scott Root-Bernstein extols the value of the "maverick" and expresses the concern: "As long as … the decisions concerning funding [are] bureaucratized, there is no hope for the maverick. He will be selected out."[22]

26 Nobel Laureates, including 10 economists, 9 chemists and 6 physicists, recently signed a letter opposing proposed legislation that would change the patent system[23]. Organized by Franco Modigliani and Robert Solow, they said the legislation

> …will prove damaging to American small inventors and thereby discourage the flow of new inventions that have contributed so much to America's superior performance in the advancement of Science and Technology.

At IPC, we did a study in 1996 of the inventors inducted into the National Inventors Hall of Fame. We found that 55% of the inductees were entrepreneurial in that they founded companies based on their inventions. Another 5% licensed their inventions but did not play entrepreneurial roles.[24]

Entrepreneurial Invention and Corporations

Judge Howard Markey, the first Chief Judge of the Court of Appeals for the Federal Circuit said:

> Many giant corporations have no need of a patent system. They may obtain patents, but only as a defense against some little machine shop operator who might otherwise invent and patent something the public would demand and the big corporation would have to negotiate for, instead of just adding the item to its product line. Many large corporations would be glad to compete on size, nationwide service, high volume, strong finance, and prompt delivery. They can kill off smaller competitors on any of those bases, unless the small competitor has a patent on a

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[22] *Discovering: Inventing and Solving Problems at the Frontiers of Scientific Knowledge*: by Robert Scott Root-Bernstein (Harvard University Press, 1989), page 376.

[23] See the IPC website for the letter and the names of signers.

[24] For a list of the inventors by type, see the IPC website

product somebody wants to buy.[25]

A successful invention is an attack, however unintended, on some vested interest. The genius of our Constitution is that it provides mechanisms that defuse revolutionary change and promote evolutionary change. The patent system is one such mechanism.

Lincoln, the only president to hold a patent, recognized the nature of vested interests and the importance of an independent start away from established institutions:

> In anciently inhabited countries, the dust of ages—a real downright old-fogyism—seems to settle upon, and smother the intellects and energies of man. It is in this view that I have mentioned the discovery of America as an event greatly favoring and facilitating the useful discoveries and inventions[26].

The inventor faces several problems when dealing with big company infringers:

- Many companies refuse to respect most patents.
- Inventors face not only an unending sequence of motions and delays in their cases, but their reputation is besmirched as they are frequently charged with inequitable conduct—allegedly obtaining a patent by fraud. The inventor must expend resources defending his honor which is be sullied by the charges having been made.[27]
- The economics of patent infringement is such that an infringer, by refusing to respect a competitor's patents, can (a) gain market share early when it is cheapest to acquire and (b) put financial pressure on the inventor and his company. At best the infringer wins his case and pays nothing; at

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[25] Howard Markey, *Some Patent Problems –Philosophical, Philological, and Procedural,* 80 F. R. D. 203, p. 210.

[26] Lecture on Discoveries and Inventions (1858), in *Lincoln, Selected Speeches and Writings* (Vintage, 1992) page 205.

[27] Inequitable conduct is a matter of equity and so the inventor can lose his patent and have his reputation besmirched without a jury trial, inequitable conduct being a matter of equity. This brief's author was in court for the inequitable conduct trial of Remy Pardo and Rene Landau (*Refac v. Lotus*) and is of the opinion that justice was not served. See the IPC website.

worst he has slowed down the inventor. This happened to Dr. Damadian whose company, Fonar, was left with a 2% market share after large firms infringed his patents. As Dr. Damadian explained in his congressional testimony:

> … I wanted fervently, in the development of the MRI, to use my invention to build a great new multi-billion dollar manufacturing enterprise for America in the same way that Edison and Bell did. I have found that even though I have now labored diligently for more than a quarter of a century, the tools for doing what Edison, Bell, Eastman and others did, no longer exist. …[B]y … willful patent infringements … our innovations were stripped from us as fast as we could create them. Moreover, I believe you will not find my experience unique. Indeed I believe you will find it universal[28].

By creating a financial motivation to infringe patents, the courts promote expensive and time-consuming litigation, discourage innovation, and increase the disrespect for lawyers and the courts.

A Study of 14 Patent Lawsuits Shows Entrepreneurial Inventors Rarely Prevail

IPC recently reviewed recent 14 cases where entrepreneurial inventors tried to enforce their patents against large companies and found that in only one instance did the entrepreneurial inventor prevail. In four of these cases the patents were declared invalid based on the same prior art that was before the PTO.

The Inventor Prevailed in Only One of 14 Cases.

The inventor prevailed in only one of the 14 cases. That was the case of *Fonar Corp. v. General Electric Co.,* 107 F.3d 1543 (Fed. Cir. 1997) where the entrepreneurial inventor was Dr. Raymond Damadian, the inventor of Magnetic Resonance Imaging, and a director of IPC. Statistically, the chance of winning only one case (or none) out of 14 (assuming a 50% chance of winning each case) is about 0.09 percent, or 1 chance in

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[28] Before the Senate Intelligence Committee and Senate Judiciary Committee, February 28, 1996.

1100. In these cases, people knowledgeable about patent law were involved in making the decision to finance the litigation. What explains this highly unlikely result? Can the inventive community have faith in the courts in the face of such a result?

	Bullock	Damadian	Dargon	Evans	Goldwasser	Hazani	Kahn	Lemelson	Lockwood	Marino	Pardo Landau	Rogel	Theis	Wolstenholme	Total
IPC		*			*			*	*		*		*	*	7
IP Reserve			*						*	*					3
PatentEnforcement	*			*		*	*					*		*	6
Total Cases															**14**
Same prior art			*						*				*	*	4
Won		*													1
Lost	*		*	*	*	*	*	*	*	*	*	*	*	*	13
Assumed chance of winning each case														50%	
Chance inventors would have won only 1 of 14 times														**0.09%**	

Table 1: The 14 cases in the study

Explanations based on bad case selection or poor lawyering can explain individual cases. The only reasonable explanation for such statistical results appears to be that the process is heavily weighted against entrepreneurial inventors.

Inventors Lost All Four Cases Where a Patent's Validity Was Challenged on the Same Prior Art

In 4 of the 14 cases, a patent was found invalid on the basis of the same prior art that was before the PTO when it granted the patent[29]. This is troubling. 35 U.S.C. § 282 states that patents have a "presumption of validity." Yet, the presumably high standard of "clear and convincing evidence" to overcome the presumption[30] was found to be met without any new prior art. If the PTO and the courts simply reach different opinions of patentability, the validity of patents is uncertain and unpredictable, and the PTO becomes nothing more than a registration agency in whose decisions the public can have no confidence. This suggests that hindsight creeps into court decisions. The PTO's expertise is in avoiding hindsight[31].

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[29] In the other cases the inventor lost for a wide variety of reasons. Bullock lost because at the last minute the "infringer" introduced a Japanese prior art "translation" that said the opposite of the original Japanese. Goldwasser lost because his employer, who had a cross license with the infringer, claimed ownership of the patent. Kahn was found non-infringing based on a new interpretation of the doctrine of equivalents. Lemelson was found non-infringing on new law on claim interpretation. Marino had the District Court

The Selection of Cases for the Sample

All of these cases are ones where an entrepreneurial inventor tried to enforce his patent against a large company infringer. All the cases went to trial, and all but one resulted in a Federal Circuit decision. All had an association with IPC[32].

There are three groups of cases

- Seven of the cases[33] were followed by Paul Heckel who, had formed a personal relationship with each of the inventors

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judge tell him in front of a witness that he did not approve of inventors seeking investors in infringement lawsuits. Pardo was found to have committed inequitable conduct. Rogel lost because of laches. Dargan lost in a trial where the judge instructed the jury that it was more important to overturn a bad patent than to keep a good one. Several of these decisions deviated from precedent; and most appear questionable.

[30] A particularly troubling example of the Federal Circuits invalidating patents is the Collins patent. The estate of the inventor, Arthur Collins, sued AT&T (*Collins Licensing, L.P. v. AT&T* 11 F.3d 1072 (table)(Fed. Cir. 1993) on a patent that had been through a reexamination by the PTO and won a district court jury decision upholding the validity of the patent. Not only did the Federal Circuit invalidate the patent, it did it on a ground that was technically inaccurate.

There appear to have been few successful cases of patent litigation by entrepreneurial inventors against AT&T. AT&T is bound by the results of the Theis case.

[31] *Uniroyal, Inc. v. Rudkin-Wiley Corp*, 837 F.2d 1044, 1051 (Fed. Cir. 1988)

[32] Intellectual Property Creators identified both PEF (David Hill) and Intellectual Property Reserve Corp. (Robert Fletcher) as firms that funded patent enforcement for entrepreneurial inventors. Both Mr. Hill and Mr. Fletcher were speakers at IPC's first meeting in the summer of 1995.

[33] These cases are: *Octel Communications Corp. v. Theis, Lockwood v. American Airlines, Inc., Wolstenholme v. Countrymark Cooperative, Inc.,*

before their cases being decided by the Federal Circuit and usually before the District Court trial.

- Six of the cases[34] were financed by PEF, a firm which funds independent inventors in litigation. PEF lost all 6 cases he invested in. Dr. David Hill the President of PEF is a businessman with a technological background. He worked with Enrico Fermi to generate the first controlled chain reaction.
- Three of the cases[35] were financed by IPRC, a firm that funds patent litigation. Robert Fletcher, President of IPRC, is a patent lawyer experienced in selecting and managing patent infringement cases. He is president of a sister company, Intellectual Property Insurance Services that sells patent infringement insurance and for which he manages patent litigation. Of the 5 cases IPRC has financed, 3 have reached a resolution. The inventors lost all three[36].

Cases were included in the study based on events that occurred before litigation results were known. These are not hindsight selections. They were not selected to prove a point. Mr. Heckel's relationship with the inventors in the IPC group and Mr. Fletcher went back to 1994 or earlier and with Dr. Hill to 1995. The results of these lawsuits are shown in Table 1.

The Case Where the Inventor Prevailed Confirms the Entrepreneurial Inventor Can't Win

Dr. Damadian is the inventor of Magnetic Resonance Imaging (MRI) one of the major medical inventions of this century. Fonar won $128 million in a patent infringement lawsuit against GE (*Fonar Corp. v. General Electric*).. This case

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Fonar v. General Electric Co., Refac International, Ltd.. v. Lotus, Lemelson v. General Mills, Goldwasser v. Smith Corona Corp..

[34] *Valutron, N. V. v. NCR Corp., Evans Cooling Systems, Inc. v. General Motors, Bullock v. Owens-Corning Fiberglass Corp., Hazani v. U.S. Int. Trade Comm., Kahn v. General Motors Corp..* Also included is Wolstenholme.

[35] *IBM/ROLM v. Dargan, Marino v. Marchon,* and *Lockwood v. American Airlines, Inc.*

[36] In one of the cases, Marino, the inventor was awarded $1.8 million in a jury trial but the judge reduced the amount to $219,000. Since the inventor never received a penny and was forced into bankruptcy, we consider that case a loss.

would seem to suggest that inventors prevail sometimes. But things are not as they appear. This is Dr. Damadian's second patent infringement lawsuit. He won a jury verdict in 1987, in *Fonar Corp. v. Johnson & Johnson*[37], but this verdict was overturned on a JNOV which was sustained by the Federal Circuit.

After losing the lawsuit, Dr. Damadian was awarded the National Medal of Technology in 1988 by President Reagan and inducted into the National Inventors Hall of Fame in 1989. This made him an establishment figure and so he was no longer seen by the courts and the big companies as an entrepreneurial inventor, When he sued General Electric on the same patents in same issues, he won his case. There are few inventors whose inventions meet this standard of establishment recognition. If, as Dr. Damadian's case suggests, the way to win a patent case is to become part of the establishment, isn't that setting the barrier too high? But entrepreneurial inventors are mavericks; they are not part of the establishment; they are even born to rebel[38]. The entrepreneurial inventor is caught in a Catch 22.

The Federal Circuit Micromanages PTO Patentability Determinations

Currently, the Federal Circuit is micromanaging patent validity determinations by the Patent and Trademark Office. Patent cases comprise only about 1/3 of the Federal Circuit's caseload. Few of the judges are expert in the technology or even come to the bench with expertise in patent law. Yet the courts through validity decisions are routinely overriding PTO determinations of patentability. In *Deference, Defiance and the Useful Arts,* Professor Craig Allen Nard argues, as does the Theis petition, that the courts should give the PTO deference under *Chevron U.S.A. v Natural Res. Def Council,* 467 U.S. 83 (1993). He concludes his scholarly analysis with:

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[37] 821 F.2d 627 (Fed. Cir. 1987) *disapproved in part by Cardinal Chemical Co. v. Morton International, Inc,* 508 U.S. 83 (1993).

[38] *Born to Rebel* by Frank J. Sulloway, Pantheon, 1996. Dr. Sulloway compiles impressive evidence that first born's support the status quo, while younger children rebel against it. In Chapter 2, for example, he shows that later borns are more likely to create scientific and technical revolutions.

> …I have asserted that the Federal Circuit's standards of review and its "traditional tools of statutory construction" result in a less than optimal balance of interpretive power between itself and the PTO. The Chevron decision dictates that the Federal Circuit dispense with its de novo review and apply the Chevron two-step to questions of patent validity, especially those involving a non-obviousness determination. Furthermore, *Overton Park, State Farm* and §706(2)(A) of the APA strongly suggests that the court stop treating the PTO as if it were an Article III court, and apply the "arbitrary and capricious" test when reviewing the fact findings of the PTO. … Lastly I have argued that there are four policy considerations which suggest that the Federal Circuit should be more deferential to the PTO. …

Shouldn't the Federal Circuit's role be an oversight role rather than one of micromanagement? That would allow it to focus on the important issues and provide a more thoughtful review of district court decisions. Table 2 suggests that if deference is given to the patent validity determinations of the PTO, the result will be fewer incorrect decisions, and, such decisions occurring earlier, will result in less damage to litigants.

An accused infringer who wishes to challenge a patent's validity based on prior art that was not before the PTO should have to request a reexamination by the PTO and the courts should stay any litigation until such is complete. Currently, any infringer will always be able to find some scintilla of evidence that was not considered by the PTO from which to argue invalidity in court. Once a patent issues, anyone can request that it be reexamined by the PTO. Currently the PTO routinely reexamine patents involved in litigation, so no new mechanisms need to be created.

Norbert Wiener, the late Institute Professor at MIT and inventor of the field of cybernetics wrote in his book *Invention,* *The Care And Feeding Of Ideas*[39].:

> I am quite willing to admit that one main object of the law is not theoretical justice but a determination of rights such as the right of ownership, which would preclude later bickering and which will give a decision that is unequivocal and irrevocable, whether or not it can be based on abstract principles of justice. However, when a law is based on a theory of what has actually happened, which does not fit the facts, it is hard or even impossible to adjudicate disputes in an impartial way. The pressure of power, riches, and the ability to use these for the employment of the best legal talent is almost certain to dominate the final decision..

Conclusion

The courts ruling against entrepreneurial inventors at an extremely high rate, even invalidating patents where all of the material prior art was before the PTO when it made its patentability determinations. The results of the 14 sample cases suggest to an unbiased observer that the results of the courts' verdicts in patent cases are strongly biased against entrepreneurial inventors. The unpredictability and capriciousness of court decisions in patent cases, especially with regards to patent validity, is damaging entrepreneurial inventors and the most important source of innovation and wealth creation in the United States.

The Theis Research case presents an excellent opportunity for the Court to restore integrity to the patent system and the encouragement of entrepreneurial invention that the Founders and Congress intended to foster.

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[39] The MIT Press, 1993, page 133.

	Federal Circuit	District Courts	PTO
Patent Law Expertise	Much (Most not patent lawyers)	Little	High
Technical Expertise	Minority	Little	High
Specialization	Some	geographic	By technology
Consistency mechanisms	Deference to Supreme Court and Federal Circuit	Deference to Supreme Court and Federal Circuit	A pyramid of specialized examining groups with management mechanisms to ensure inter-group consistency.
Percent patent cases	About 35%	Maybe 2%	100%
Distance in Time and Circumstances from invention	Usually at least a decade after the invention was made.	Usually at least a decade after the invention was made.	Most are done within 2 or 3 years. Reexaminations usually occur, before invention becomes commonplace.
Prone to using hindsight	Yes	Yes	Not with original examination. Often on reexaminations.

Table 2: Comparison of Decision-making Entities